THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Volume 73, No. 9 February 5, 1944

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EUROPEAN REPRESENTATIVES—International News Co., Ltd., Breams Bldg., London, B. C. 4, England.

Cable Address—Tickerpub.

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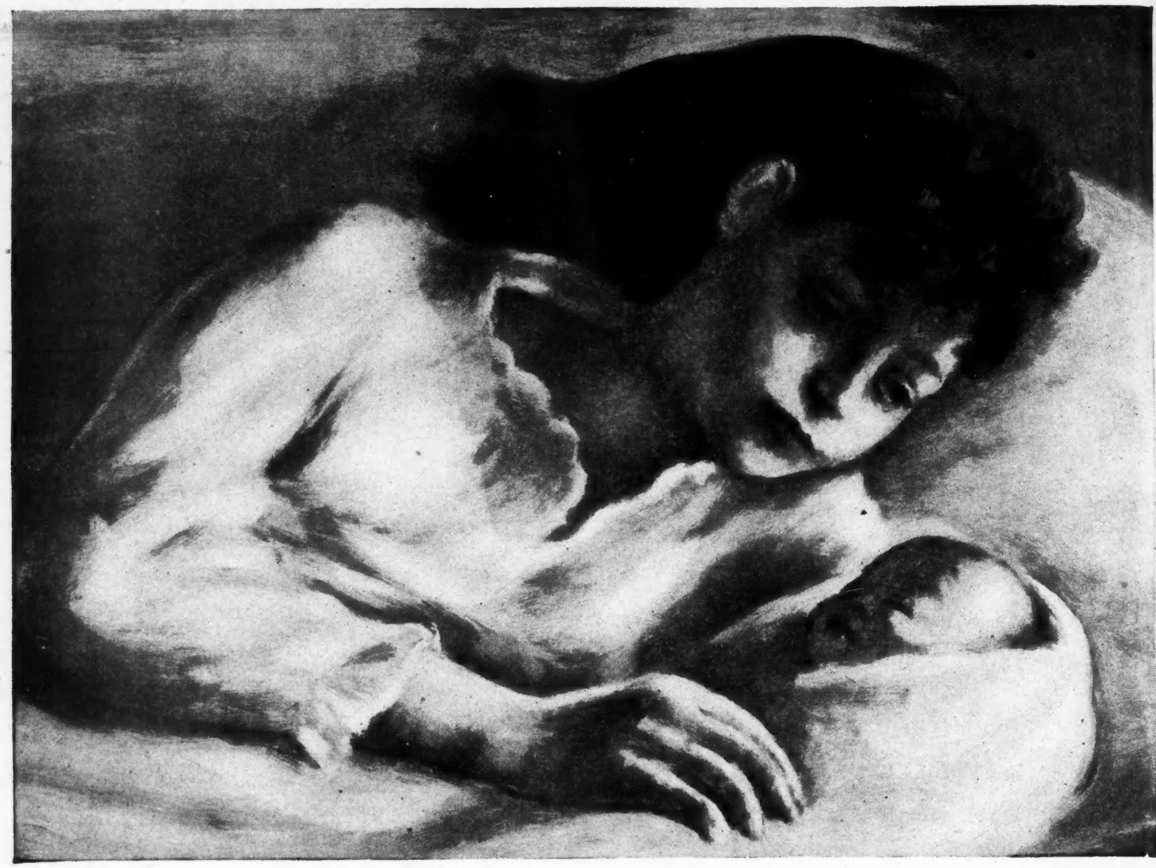
H. F. J. KNOBLOCH, *Treasurer.*



A President is Born

HE is so small and helpless. So dependent on you for his life and well-being. And yet you look at him and say—

"Someday he may be President."

Put it down as foolish sentiment. Put it down as parental pride. But where else in the world could you envision for your child the possibility of his attaining, one day, the highest office in the land?

Maybe your child won't make it. But one child, very much like him, will. One child out of the three million babies born this year—or the next—or the year after.

Whether or not he attains this high position is not so important. What matters is that here, in America, he is born with that opportunity. He is born in the stubborn tradition of free men — men who felt that in government, the wisdom of the many is preferable to the ambition of the few. He is born in a tradition of self-reliance—where he may succeed or fail according to his own efforts.

Because of that, you will train him to think for himself, to fight his own battles, to make his own way.

You will teach him that responsibility is inseparable from freedom. And that if he joins with other men in an enterprise he should demand the same responsibility and freedom for his business that marks his birthright as an individual.

Someday he may hear, as you have heard, voices that say, "Surrender your opportunity for the certainty that you shall always have bread"—as if man lived by bread alone. As if the country were better served by limiting all to mediocrity, instead of assuring to all, under law, an equal chance to rise by their own efforts, conscious of their obligations to others.

What that son of yours learns at your knee will decide whether or not he will ever have to bend his knee before dictation and tyranny. And because of what you teach him, he too may one day look with that same foolish pride on his own son to say, "Someday he may be President—"

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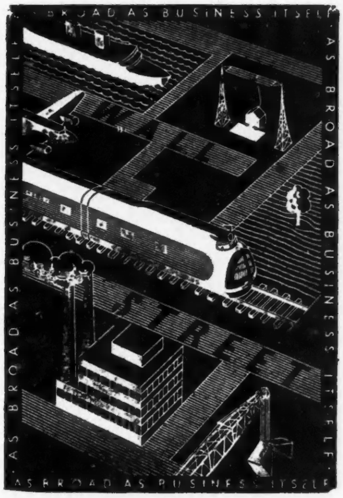
THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* Laurence Stern, *Managing Editor*



The Trend of Events

OVER THE TOP . . . Although our maximum military effort still lies ahead, we have already gone over the top in industrial production for war to such an extent that large, although selective, cut-backs in war output are both familiar and increasing. At the same time we have produced consumer goods and services at a rate of about $90 billions a year, even with fully half of the nation's productive effort devoted to war. While part of the increase in consumer supply at the $90 billion level represents price inflation, nevertheless the aggregate physical volume of this supply has exceeded any pre-war year in our history.

Now when you stop to think about it, this is an eye-opening performance. In the midst a war dwarfing all previous wars in its demands upon production, we are maintaining a high civilian living standard. This has never happened before in any other country on earth. And we are maintaining this high living standard without denying our armed forces the war production that they require. It is possible to quibble with the latter statement—to point to the strikes and the man-hours of labor lost. While these are absolutely indefensible, our statement nevertheless stands. If war production were not fully adequate to military needs which have been most conservatively calculated, we would not be seeing increasing cut-backs; nor would the monthly rate of Treasury expenditure for war be flattening out, as it is, at a level under the peak of last November.

By the collective effort of all classes, the American people have performed a miracle new to this world. Doubtless soldiers feel—as they always feel in war—that civilians have not sacrificed enough; and some of our officials, on this point, express concern over soldier morale. But surely needless civilian sacrifice merely for the sake of sacrifice can hardly speed victory; and the really big news that ought to be carried to the fighting men is not the controversies and bickerings but the amazing production performance. Because this revelation of the true power and resourcefulness and energy of the United States of America—civilian America as well as military America—should give our soldiers all the more faith and confidence in the destiny of the land to which they will return and of their fruitful part in that destiny. Civilian America has not and will not let its soldiers down; and we think it is not complacency, but inspiring truth, to make these observations. A collective effort that looks "too easy" from afar looks that way only because of the giant power with which it is being performed.

MOBILIZING MANPOWER . . . Some types of war production—of which combat aircraft is outstanding—will require a large further increase in productive effort. This, from all the evidence, will call for more of a shift in allocation of available labor than for further large expansion of the total labor force.

One way to further the selective mobilization of all needed manpower is by means of a national service act, as called for not long ago by the President. Since then the case for such an act had been further, and persuasively, argued by Secretary of War Stimson and Under-Secretary of War Patterson, both able and sincere officials and patriots. With all respect to them, we submit, however, that it is to confuse the issue (1) that compulsory service is necessary to assure adequate war output, that (2) it is necessary to prevent strikes, and that (3) anyway it is necessary to maintain morale of the armed forces.

If it can be demonstrated to be necessary to the successful conduct of the war on any single one of these three counts, much less all three combined, we think public opinion not only would support compulsory service for civilians but clamor for it. However, it seems apparent that public opinion is not so convinced.

The over-all war production performance commented on in the preceding editorial does not appear to suggest that compulsory service for all is required. If not, then a service act primarily intended to freeze essential workers in their present jobs, to expedite shifts of labor to remaining shortage areas and to discourage strikes seems a needlessly cumbersome way to proceed.

England has compulsory national service—yet official figures just released show that the number of strikes in 1943 was the greatest since 1893 and the man-hours lost by strikes the greatest since 1937. If it were not for the somewhat protracted coal strikes that John Lewis was responsible for, our strike loss of man-hours last year—without compulsory service—would have been scarcely, if any, greater, on a per capita basis, than was the case in England. For those who think there is magic in just "passing a law" there is food for thought in these facts.

BARUCH AGAIN . . . The newspapers report that Bernard M. Baruch, the 73-year old advisor to two war-time Presidents, will be asked to head the staff of the newly created Economic Policy and Planning Committee set up by the House of Representatives. Representative Colmer (Dem., Miss.) announced that he at least would ask Mr. Baruch to serve in this capacity either "actively" or in an advisory manner.

We agree with Mr. Colmer that no better qualified man could be found for such a task. We also think it high time that Congress improve the quality of its work by placing much greater reliance on really expert committee research and planning, somewhat similar to what the British have long had through their famous Royal Commission inquiries and reports.

This is not a matter of Congressional abdication of its Constitutional duties and responsibilities, but merely of equipping itself to carry them out more intelligently and effectively than has often in fact been done. Able "elder statesmen"—Baruch and others above partisan strife and commanding unquestioned public repute—could serve their country no better than by assisting responsible Congressional committees in their planning.

POST-WAR BUILDING . . . All agree that there will be a large volume of construction after the war. Opinions differ as to how long will be required for large scale private building to swing into high gear; and as to what part public works should play in the picture.

Secretary Ickes and others at Washington are already urging that large public works projects be planned as a stimulant to employment and that this program should be launched promptly to cushion unemployment in the transitional adjustment period following the defeat of Germany. We have our doubts about this.

In the first place, it seems improbable that public works could assume full force in making jobs any more quickly than could private construction, once the latter is relieved of war-time inhibitions as regards both labor supply and raw materials. In the second place, most economists believe it certain that deferred needs for consumer goods—domestic and for export—make it certain that the reconversion phase will be promptly followed by at least several years of high production—without necessity for Federal pump-priming—and they, therefore, argue that transitional unemployment should be handled as a temporary emergency.

The initial impact of transitional unemployment will be mitigated by the accumulation of consumer savings, by unemployment insurance and by the program of aids to discharged service men now being formulated. It is expected that up to some 6,000,000 married women, teen-age children and elderly workers will withdraw from the labor market under normal competitive pressures. For millions of others the immediate problem will not be permanent loss of unemployment but to make shifts in occupation. We strongly suspect that a public works program would not help much during the first nine months to a year after capitulation of Germany, that it would get going about in time to intensify unnecessarily the subsequent business upswing. Except as really urgently needed, it might be better to defer public works until the "catching up" boom in consumer goods has begun to catch up; and then resort to them in a longer-term program aimed to help stabilize the vast field of construction and, through it, to contribute greater stability to the whole economy. Public works are both a clumsy and ineffective device for quick and relatively short employment emergencies.

NEAR EASTERN OIL . . . According to press reports, it appears that the Government is definitely committed to large-scale development of the Near Eastern petroleum resources in co-partnership with private companies active in that territory. For some time, this question has been at issue but if press reports are borne out, a decision in principle has now been reached. Involved is the construction of a network of pipe lines from the Persian Gulf area to Mediterranean ports and the erection of gigantic refineries at Haifa and Alexandria, both strategic locations. The cost is estimated at several hundred millions, largely to be borne by the U. S. Government, and the construction time is expected to run from eighteen months to two years.

Because of the latter, the project can hardly be viewed as a war project in the first instance. Rather, the backstage maneuvers preceding the latest developments suggest that it ties in closely with post-war plans for development and distribution of the world's petroleum resources, supposedly an important topic at recent international conferences. This, more than anything else, would explain the Government's insistence on active participation in this development over the heated protestations of the oil industry that it is quite able and willing to handle the job alone. Of the latter, there can be no doubt, considering the industry's past record. Hence Government entry into the international petroleum picture must logically be laid to international political considerations rather than to paternalistic designs or the desire for economic control as such. The latter may be subsidiary motives, arising from realization of the need for conservation of our domestic oil resources, but this alone would scarcely account for this move that is destined to make the U. S. Government a permanent factor in the world petroleum picture.

As I See It! BY CHARLES BENEDICT

NO BREAKS FOR THE AXIS

Actually Germany cannot take much comfort out of the widely publicized difference among the Big Three because nothing has happened thus far to lead to the conclusion that these interchanges are a prelude to a serious rift. On the contrary the Allies are as united as ever on the paramount objective—which is to defeat the Nazis, although they may see certain related factors with different eyes.

The explosions that we hear reverberating around the world are diplomatic exclamations of displeasure and suspicion concerning the divergent moves and countermoves designed by leaders of the various countries to protect their interests—and to establish a basis for compromise and bargaining regarding their relative positions and spheres of influence in the postwar era.

Poland

While the British were not exactly delighted with the clumsy report in *Pravda* of separate peace negotiations, this is not likely to affect relations with Russia or to interfere with the concerted solution of the various problems that have to be ironed out. Nor is a crisis likely to develop over the Polish question since it is extremely doubtful whether the people of either Britain or the United States would be willing to pay the price to bring about a restoration of prewar Poland, which was never a democratic state but a backward and feudal one—a land in which the masses lived in the greatest poverty, and where social caste and religious intolerance existed to a high degree. This quarrel between Russia and Poland is a thousand years old. Besides, as matters stand today, the territory under discussion is still occupied by the Germans and would remain in their control unless freed by the Russians.

But first and foremost the territory in question formerly belonged to Russia, and had been forcibly annexed by Poland in the 'twenties. Nor is it land given to her under the Treaty of Versailles when the new Polish state was set up.

And this is not the single instance of Polish aggression, for, unfortunately, under the opportunist government of Premier Joseph Beck, the rich mineral state of Teschen was shamefully grabbed from Czechoslovakia, at the time Hitler was despoiling that little country. In those days Poland was leaning heavily toward the Nazis, although Beck had a way of swinging dizzily from side to side, collecting large financial loans and other valuables from each.

In view of the situation surrounding these various pieces of territory, therefore, Poland is not in the same position to invoke the Atlantic Charter in her behalf as are Belgium, Holland and others, including Norway and Denmark.

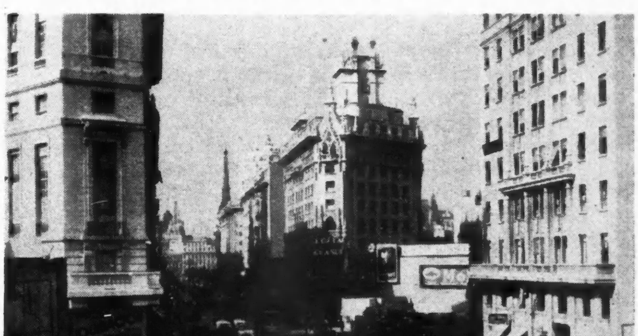
At the moment there is considerable resentment in this country over the threat to use the five million Polish-American vote as a stick with which to chastise that party in our country which does not meet Polish demands for her 1939 status quo. This seems like the tactics of Joseph Beck all over again.

Argentine

While the Nazi propagandists were gloating over the sensational handling of the Polish matter, and hoping for the worst, we slipped them a staggering blow via the Argentine—a blow from which they are unlikely to recover. It affects both their plans for current movements and contemplated future goals.

By depriving the Nazis of an irreplaceable source of supply for critical materials, we are bringing inevitable defeat closer to them, while disruption of their plans in this hemisphere will prevent them from consolidating whatever influence they had on the South American continent.

The United States has been extremely patient with the Argentine in the face of the dangerous situation resulting from their pro-Axis (*Please turn to page 482*)



Cushing

Del Monte Avenue in the Heart of Buenos Aires, Argentine

Market In Decisive Phase

The slow December-January upturn appears to find the going increasingly laborious under an inferior speculative leadership. In our opinion, the obstacles to important and sustained advance remain too formidable; and we therefore continue to advise caution in investment policy.

BY A. T. MILLER

The stock market does not long stay put in so narrow a trading range as has prevailed in recent weeks. If the upward trend that set in from the November low is still "in being", all we can say is that it now looks very laborious indeed. Since the first trading day of this year the Dow industrial average has merely "made a line." Meanwhile, the rail average—after providing brisk speculative leadership for some weeks—began recently to look toppy, without having recovered to or above the major high of last summer.

Since the trend indications on a technical basis are so negative at this writing, one must concede that the market *may* have hidden reserves of strength that will soon carry it higher. Though we grant that possibility, we are skeptical of it. Moreover, unless the industrial average can pretty soon come out of its coma with an advance, we think it likely that something of a general retreat of at least fair proportions will be in order.

The great majority of better grade industrials—and prominent industrials in general—just are not movng. This fact is strikingly emphasized by the accompanying chart if you will note the static performance of our weekly index of 100 high-price stocks. Excepting for elimination of the daily wiggles, this index moves closely in line with the Dow industrial average.

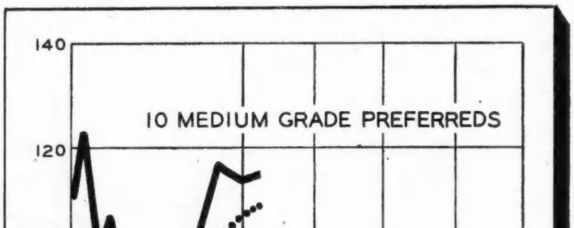
Study of the chart will also emphasize that, while our broad index of 283 stocks has maintained a slight upward slant for some weeks, this strength has centered mainly in secondary and more speculative issues—which is why among all the charted lines the most clearly defined intermediate uptrend (from November low) will be seen in our index of 100 low-price stocks.

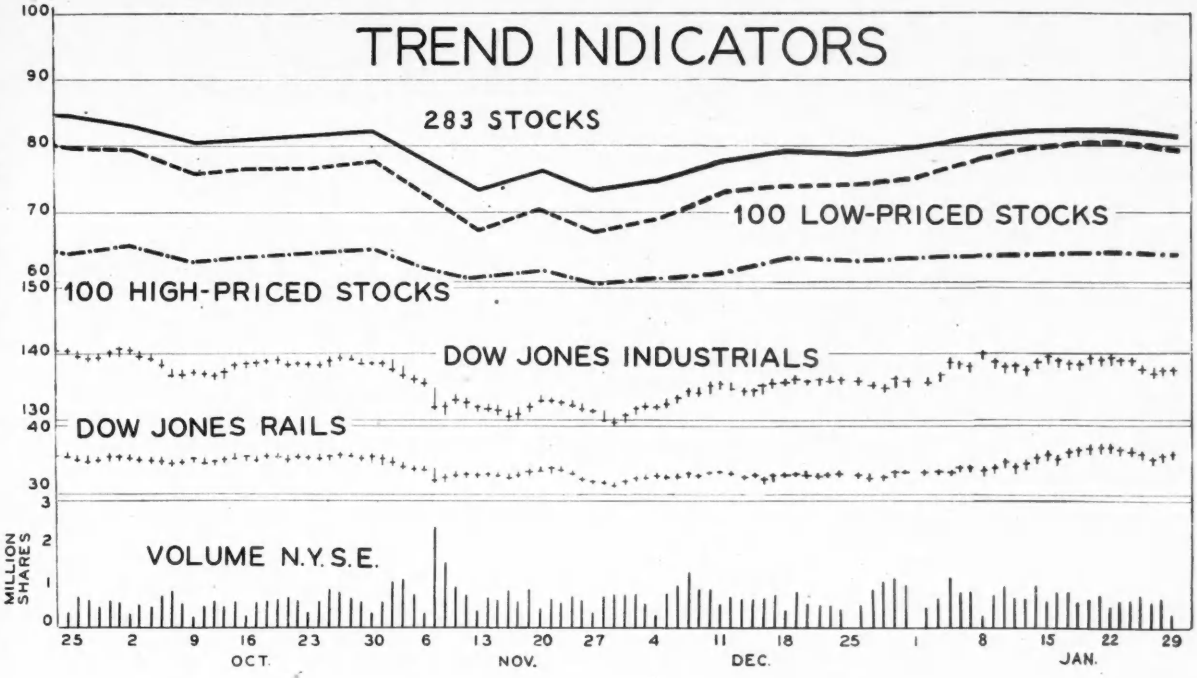
The divergence that we note seems, generally speaking, to suggest that the speculative-minded are now more confident (or rash) than the investment-minded. Of course, there have been goodly periods of time in bull markets when a divergence in favor of speculative market leadership was present without implying imminent topping out tendencies. Such was the case throughout the early months of last year—but with the difference that the Dow industrial average (and our index of 100 high-price stocks) also went up persistently, though at a much slower pace than the low-price stocks.

In short, there are times when a market leadership of distinctly speculative character can be looked at without lifted eyebrows—but we have our doubts that this is such a time. Most all stocks—save those that have something the matter with them—have a large advance behind them, as represented by the highs of last July. For nearly seven months now the industrial and rail averages have been wandering around in what can best be described as a range of intermediate indetermination, with only a relatively small minority of individual equities, mainly secondary stocks, able to rise to new highs.

As we have said before, this protracted interlude can not remotely be regarded as merely a "technical correction" of the prior major advance. Whatever it may develop into at some future time, the market today—and for the past seven months—is neither a bull market nor a bear market. It is a "wait and see" market. Excluding the impatient trading fringe which will play for minor wiggles if nothing better can be had, most people have so many questions in their minds that they just don't see any commonsense basis on which to make decisions to buy stocks or to liquidate those already held.

Obviously, the most imminent—and sobering—question centers in the coming Allied invasion of the Continent. For many weeks the endless conjecture about this in the newspapers and over the radio has led us to assume as virtually a matter of course that, whatever the correlated moves elsewhere, a cross-Channel attack on a huge scale





is being carefully prepared. The many months of preparation itself attests to the great difficulty involved in such an undertaking—and to the grave implicit risk.

We assume that this exceedingly critical—and possibly strategically decisive—phase of the war is now not so many weeks ahead. The outcome of the Allied invasion—or invasions—has become the most crucial military question not only of 1944 but of the war. A glorious success would bring the end of the war within sight as a probability, if not certainty, of the summer or autumn. A disasterous failure would prolong the war by a great many months at best.

It is beside the point that one may have supreme confidence in Gen. Eisenhower and his associates, or that one may take it for granted that the fact of approaching invasion implies a conviction—based on the most expert and painstaking calculation of our commanders—that it stands a considerably better than even chance of being successful. The fact remains that there can be no *certainty* of victory in an amphibious campaign of this kind, over a stretch of water presenting decidedly fickle weather hazards and against a coast which by now has been fortified to the fullest extent of which the unquestionably able German commanders are capable. Against far less formidable odds, it was for a time touch and go whether our bridgehead established at Salerno last summer could be held.

While we wait for an answer to this invasion question and the light it will throw on the probable duration of the war, it seems to us that there can be no answer—or only rather unsatisfactory answers—to various other questions making for investment indecision.

Many people, probably most people by now, figure there will be a period of several years of good business activity after the war. It was this belief—with very little tendency to raise questions about the time element involved—upon which the market's advance in 1942 and the first half of last year was mainly founded. But at present—and for many months past—the matter of time has increasingly demanded consideration. Assuming there will be a boom "after the war": when is that? Is it to be in 1945 or 1946 that it will begin? Meanwhile, in the transitional readjustment phase, following the end of the war in Europe, what will be the duration and scope of the decline in production, employment and national income? Will the bottom of that downgrade be seen nine months after the capitulation of Germany? Or twelve months? Or fifteen months?

To be optimistic, let us say the corrective period will take only nine months. But that still leaves one in the dark on the time element. Nine months starting from when? Answer: when Germany is defeated. Question: When will Germany be defeated? In short, we are right back where we started from in these imponderables.

The underlying point we emphasize is not only that the approaching invasion is likely to keep the market in suspense—constituting, in our opinion, a formidable psychological obstacle to important advance—but that meanwhile one can have only a most tenuous basis for conjecture as to the time factors involved in the war, in the post-war transition and in the post-transition prosperity. We believe that the future market trend must be intimately related to these uncertainties; and that some clarification of them—at least much more clarification than we now have—is a prerequisite to resumption of a sustained upward trend in the general run of common stocks.

A successful invasion will confront the market—much more emphatically than previous vague hopes—with an "early peace" psychology; and the necessity of getting down to cases in trying to evaluate the implications of the coming transitional phase. To our mind, that suggests market unsettlement and selective readjustment, rather than broad advance. Should the invasion fail, we think the initial implications would be quite bearish. Either way, we continue to lean strongly to the cautious side in investment policy.—Monday, January 31.

The PROS and CONS In Commodity Price Outlook

Further Rise? Stability? Post-War Decline?

BY LAURENCE STERN

AT various times over the past year the Government's price control program was "tottering" or about to break down—in the newspaper headlines. For a structure supposedly so shaky in the foundations and with so many leaks in the roof, it is remarkable that the thing for so long confounded prophesies of galloping inflation by the simple fact of just continuing to stand up.

The wholesale price index in late January was 103, no net rise since last March. Farm products were at 122.1, no net increase since last March. Raw materials were at 112.3, no net rise since last April. The manufactured products index was at 100.4, no rise in a year. The foods index was at 104.8, a slight decline from a year ago. We could go on and cite other commodity groups in detail, but the picture would be much the same only more so—that is, a price structure that seems (at least to this writer's eyes) to have been rather effectively frozen.

Of course, the Administration's battle to maintain economic stabilization is not yet over. The labor unions continue to snipe away relentlessly—and with a fair measure of success—at the wavering wage stabilization line. The farm bloc continues to oppose the food subsidy program, preferring instead to let supply-demand factors have their way in further boosting agricultural prices. It is uncertain whether there is in the offing a compromise between Congress and the White House on the subsidies and, if so, what its shape and its influence on prices might be.

There is a wide divergence of opinion about the commodity price outlook for the rest of the war in Europe, for the transitional readjustment period following the defeat of Germany and for the subsequent longer-term period of generally expected post-war prosperity. Some observers expect further substantial rise this year, perhaps 10 to 12 per cent in the general price index; no significant decline in the transitional period; and a further major rise during the "post-war boom." This school of thought also holds that the long-term price structure will remain permanently and substantially above that prevailing over the several years just prior to the start of the war.

On the other side, it is contended that the general price index has either seen its war-period peak or is within 3 to 5 percentage points of it; that there will be a decline of perhaps 10 to 15 per cent in the transitional period of deflation in production and national income; that the subsequent advance in the early phases of the "catching up boom" in consumer goods will not take the general price level above the war-time peak; and that after about two years of high-level civilian production a long-term downward trend in commodity prices will set in.

This is a risky field in which to make specific forecasts—especially longer-term forecasts—since, in the final analysis, so much depends on future Government policies. Here politics and political pressure groups figure in. I submit, however, that on the whole, it is easier to put a ceiling on prices than, through politically-conceived measures, to put a floor under prices in peace time.

Although prices have been notably stable for many months, that is not to say that the present price situation is normal. The stability was established only after a considerable previous rise. The present level is most abnormal—that is, inflated—in the case of farm products. Assuming, as I do, no fundamental long-term change in the integrity of our monetary system, I take it as fairly certain that a price inflation caused by war-time distortion of supply-demand relationships will in due course be followed by corrective price deflation since peace-time supply normally equals demand and often exceeds it.

Looking back to 1920-1921, 1929-1932 and 1937-1938—all periods of commodity price deflation—I see nothing in the record to suggest that anybody (including the Government) knows how to prevent prices from going down if they have previously advanced to an uneconomic level. Dissenters may answer that we did not have modern "government planning" in 1920-1921 or 1929-1932. I answer that we *did* have it, however, in 1937-1938. At least in 1936 when business and prices were going up, President Roosevelt assured the country—and probably sincerely believed it—that his Administration had "planned it that way." Presumably the Administration was still

"planning it that way" when, to its surprise, the more sensitive commodities began to break sharply in the spring of 1937, with farm prices skidding down nearly 27 per cent in twelve months and the raw materials index by almost as much.

Perhaps the strongest point in commodity price prospects for both the transitional period and longer postwar is that our war-time inflation, in contrast to that of World War I, has been generally moderate and without speculative excess. (There are other stabilizing influences of potentials which we will take note of hereafter.) For a variety of reasons, it seems improbable that the end of the war with Germany will be followed by a speculative inventory-building spree such as that which so sharply inflated prices in 1919-1920, with war's inhibitions removed, and which so greatly aggravated the price deflation of 1920-1921.

Political controversy over price control has confused a public opinion that is not too well versed in economic fundamentals. The reasons why price inflation has been much more moderate than in the last war are more economic than governmental. Furthermore, the governmental measures that have been most effective in restraining the price rise have not been those administered by OPA. Of greatest importance have been the expansion in supply of raw materials sponsored by the policies of the War Production Board and the Defense Plant Corporation, and the WPB inventory controls which have discouraged speculative demands. Additionally, WPB restrictions on the end uses of raw materials have choked off various types of civilian demands; while the wage controls of the much criticized War Labor Board have also tended at least in some degree to hold prices down. Some very able and quite non-partisan economists credit OPA controls with holding prices perhaps 5 per cent lower than they would have been had there been no OPA.

A brief examination of differences in the situation as between the First World War and this one is worth while because these economic considerations have a close bearing on the future of prices.

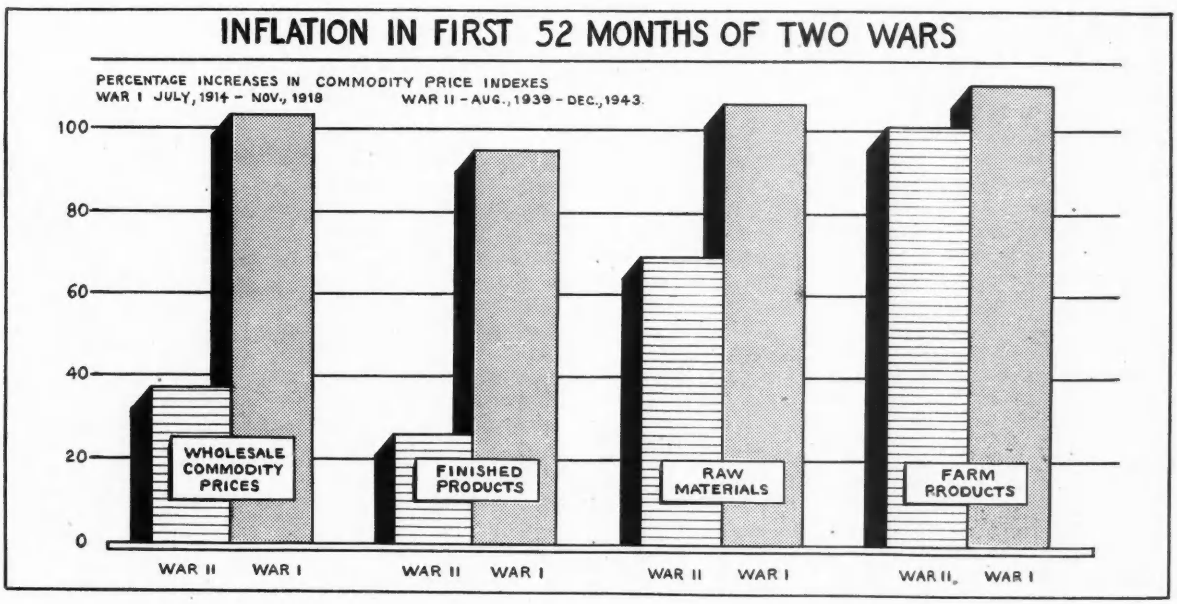
Production of raw materials was relatively stable in this country throughout the First World War; and, proportionately, there was nowhere near as great an expansion in industrial capacity and productivity as there has been during the present war. Thus, military demands and civilian demands competed for a supply of materials and goods more static than in the recent period.

Second, there was more "slack" to be taken up when we entered the present war than in 1916-1917-1918. In the earlier period our effort began with a much smaller relative unemployment than existed in 1939-1940-1941: with hours of work already so long that they could not be greatly extended; with women and others, not a part of the normal labor force, not replacing service men withdrawn from industrial jobs on nearly as great a scale as in the present effort. Thus, the economics of supply-demand were more inflationary in World War I than now.

Next, the financing of our part in World War I was predominantly through bank credit inflation. With a large and rapid expansion in money supply—in conjunction with the supply-demand economics sketched in the preceding paragraphs—only strict rationing of the raw materials and goods produced could have prevented a major inflation of prices. Such rationing was not imposed. Therefore, prices advanced.

Until fairly recent months, we had also relied heavily —too heavily—on inflationary financing of the present war. But the effect on prices was limited by the great expansion in production, by the existance of large inventories of many types of civilian goods that had been built up in 1940-1941 and early 1942 when there was still some "slack" in capacity, employment and hours of work, and by the Federal controls previously discussed.

Now at present, time—and an important change in the money supply factor—is working against further price inflation. The labor shortage is past its tightest phase. It seems probable that the monthly rate of war expenditure made its peak in November. Materials supply is progressively easier in steel, copper, aluminum, rubber, magnesium, zinc, lead, plastics. It is very likely that coal, lumber and paper will ease within a few months.



War order cut-backs are increasing, will probably be heavier in the second half-year than in the first half even if Germany holds out through the year, and will be of major proportions in the second half-year should Germany capitulate by summer.

Meanwhile there has been a shift in war financing—partly due to the fact that war expenditure has proven substantially less than had been budgeted—to predominant Treasury reliance on non-commercial-bank sources of funds. There is good reason to believe the rest of the war can and will be financed without important further deficit-financed inflation of bank deposits.

Therefore, I believe there is a better than even chance that we either have seen the peak of the war-time rise in the general price level or are very close to such peak—regardless of whether the Administration's wage line bends a bit further and regardless of what compromise is effected on food subsidies.

Wage Stabilization

Those who have feared that any "break" on the wage stabilization front would "touch off" an uncontrollable spiral of wage-price inflation seem to me to be on somewhat unrealistic ground. This is, of course, no argument for generally higher wages. Many of the union demands being made are not logically defensible. One can oppose them with good reason—and yet without exaggerating their inflationary threat. On the one hand, the inflationary influence of higher wages on consumer demand has been moderated by the non-wage controls—economic and governmental—previously outlined; and this would continue to be true of further *moderate and limited* wage increases. In the present changing economic and political environment, I think it self-evident that any further wage increases *will* almost certainly be moderate and limited. On the other hand, under present levels of taxes and business profits, higher wages can not have their normal influence in raising prices through higher operating costs. In effect, the increase in operating cost finds reflection most greatly in reduced corporate tax liability, with but moderate impact on net profits in the war-active industries within which the higher wage demands mainly center.

Even the most optimistic forecasters anticipate a decline of at least 15 to 20 per cent in national income within nine months to a year after defeat of Germany. Some observers expect more transitional deflation than that. Though some offsetting factors will be present—including a civilian demand for various types of goods that will exceed supply in this period, and large export demands—it seems to me that on balance the post-Hitler adjustment phase will be accompanied by at least a moderate easing in prices.

There will be general agreement, I believe, that further price advance after the war is undesirable and not in the interest of long-run economic stability or high-level employment. No nation—except one whose economy rests mainly on export of materials—can get rich on high prices. Certainly this nation can not. The circumstances that will confront us will require a high production, a high employment, and a high national income in dollars with a purchasing value as large as it is possible for a productive economy to pack into them. It is much more essential that the masses of consumers have an increasing and widely diffused "real income" via gradual, long-term price reduction — effected through technological advances, increased producing efficiency, lower *unit* costs—than that any small minority of materials producers and business entrepreneurs prosper temporarily out of high prices and scarcity economics.

We shall emerge from this war with a vastly increased producing capacity and producing efficiency. While below-ground reserves of some raw materials will be in less abundant supply than formerly, this is a long-run matter. Natural materials will not be in short supply during either the transitional period or the several years of "catching up" consumer goods and export-demand boom that most observers expect. Supplies of scrap metal will be very large. The newer, man-made "raw materials"—plastics and other synthetics—will constitute a permanent and important increment to the total pool of industrial materials.

Therefore, it seems to me that there are only two possibilities of post-war price inflation that need be considered: (1) Possibility of temporary further rise, following the completion of transitional readjustment in industry and employment, during the first year or eighteen months of the consumer goods boom when demand may—and at least for many types of durable goods certainly will—exceed supply; and (2) possible foreign trade and currency agreements requiring a further cut in the gold value of the dollar.

As regards point (1) I assume, with considerable confidence, that under any Administration at Washington there will be sufficient intelligence to extend modified rationing controls until supply comes into adequate balance with demand. Some of the present rationing no doubt will be eliminated or eased. But control methods will have to be devised to govern distribution of various kinds of consumers' durable goods, topped by automobiles, for some time into the renewed production period. No doubt motor cars and household equipment initially will cost more than last pre-war models but this should not importantly raise the composite price index, and I have little doubt that in time further technological advances will either reduce durable goods prices or add more value per dollar of price, if not both.

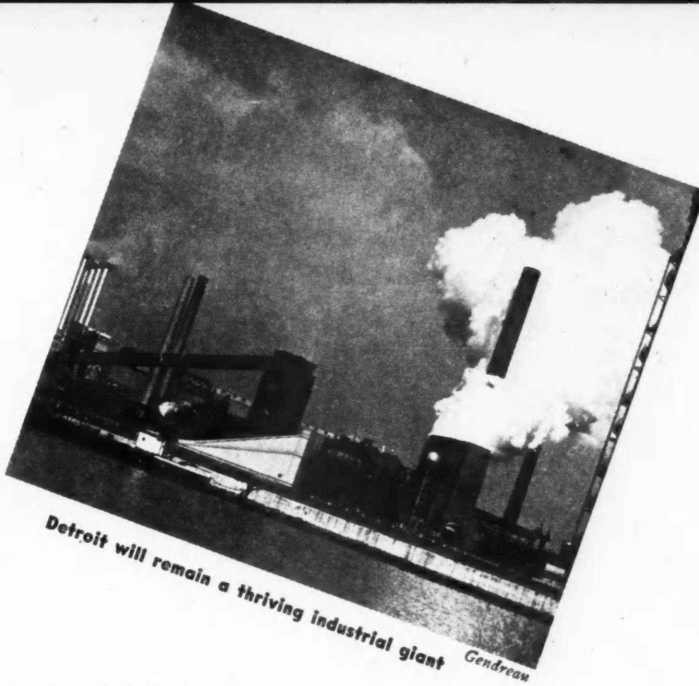
(Please turn to page 483)

British Combine

Farmers are the big winners in the price rise.

Our Changing Economic Map

Regional Shifts In Population and Industry



Detroit will remain a thriving industrial giant

Gendreau

BY E. A. KRAUSS

CONVERSION to a war economy has brought in its train significant changes in the geographical distribution of the American people and their economic activities. Everyone by now has heard of, or witnessed himself, the severe regional distortions which occurred in sections where over-expansion of war-industrial activity was pronounced. They are marked by abnormal in-migrations of workers, exaggerated local boom conditions and general overcrowding of all facilities for living comfort. Once reconversion gets under way, a painful reversal is in store for many of these areas which in the process may well become problem areas.

Regional changes are not peculiar to war-time alone. Shifts in industry and population are constantly occurring in line with structural changes in our economy which after all is a living organism. But in normal times, these shifts are gradual, often hardly perceptible as they occur. Broadly speaking, the major effect of the war has been to speed the trends which have generally persisted in our economic development during the past several decades, and this is bringing them forcefully to the attention of even the casual observer.

Where war-industrial over-expansion took place, this was due mainly to two factors: (1) An intensification of trends already in existence, and (2) creation of new centers of industrial activity. Both entered importantly in such states as Connecticut, California, Ohio and Washington where existing industries such as aircraft, machinery, ship construction and non-ferrous metal smelting were tremendously stimulated as acres of new plants were built around existing cores. In contrast, war-time activity in Kansas and Alabama, largely centering on explosives, represented new developments. Similarly, new centers of ship building and metal smelting arose in Oregon while the same industries, dormant for many years, revived to new vigor in Maine and Utah. When war work stops, these regions become potential problem areas irrespective of which of the two aforementioned factors predominated in their abnormal development. They represent extreme cases reflecting extreme examples of over-expansion far beyond their normal regional importance.

Lesser problems will arise elsewhere, in borderline cases such as Massachusetts, where ship building and machinery construction have undergone considerable expansion. But here, chances of a reasonable adjustment after the war are much better. The same is true of regions which participated less in the war effort than might have been expected. New York, Pennsylvania and North Carolina are examples. War-time industrial expansion in those and similar areas should be readily absorbed in a period of national prosperity since it follows roughly the national trend.

Closer study will show that war-time expansion on the Atlantic Seaboard, the Middle and South Atlantic States, while heaviest, was *relatively* much smaller than the pre-war manufacturing importance of these regions. In the heavily industrialized East North Central region, comprising Illinois, Ohio, Michigan, Wisconsin, expansion was only slightly greater, relatively speaking. Elsewhere in the country where industrialization is far less advanced, the percentage of new facilities is significantly greater than their pre-war industrial position. This is particularly true of Texas, Alabama, Arkansas and Oklahoma.

Altogether, the regional pattern of expansion has been quite similar to the variation in growth trends which were evident before the war but the Southern states formed major exceptions as illustrated by sharply stepped-up war-time activities in West Virginia, Tennessee, Georgia, South Carolina and Virginia.

The war-time program of new capital investment has tended to bring about a marked geographic diffusion of the American industrial plant. Whether the relative gains in the varying centers of war activity will hold in the post-war era depends largely upon the extent to which war plants can or will be converted to civilian output, and on the timing of reconversion.

As previously mentioned, the geographic dispersion of the war effort represents mainly an accentuation of long-term trends. Even before the war, new investments were

flowing into less industrialized regions as witness the development of the South. Though efforts were made to spread war activity, expansion was greatest in areas already industrialized, areas having transportation, power, labor and other resources.

All these shifts, or intensifications of existing trends, have profoundly affected the geographic distribution of our population but here, too, a rather consistent pattern presents itself. In the Pacific states, enormous migrations to war production centers took place with an over-all increase of civilian population of 8.2% against only 1.3% in the South Atlantic states. Altogether, only thirteen areas show civilian population gains between 1940/43, varying from 26.7% in Washington, D. C., to 0.6% for Michigan. Greatest population losses occurred in the West North Central, Middle Atlantic and East South Central regions with the Dakotas, Montana, Idaho and Vermont among those states showing losses of over 10%. These losers, mainly rural areas, fell victim to marked migrations to urban centers of war production.

Due to the expansion of the armed forces, our total civilian population in 1943 was smaller than in 1940, yet 137 metropolitan counties where more than half of the country's population is located, show an increase of 2.4%. Greatest gains are reported by the San Francisco-Oakland area (19.2%), Washington, D. C. (28.2%), Norfolk-Portsmouth-Newport News (45.2%), San Diego (40%), Seattle (20.1%), Baltimore (11.6%), Los Angeles (7.6%) and Detroit (8.1%). On the other hand, the New York metropolitan area suffered a loss of 4.6%, Scranton-Wilkes-Barre 17.9% and Boston 4.6%. These figures alone afford an admirable picture of war-industrial concentration and its far-reaching effects. Clearly, a considerable reshuffling of workers after the war is inevitable.

Post-War Readjustments

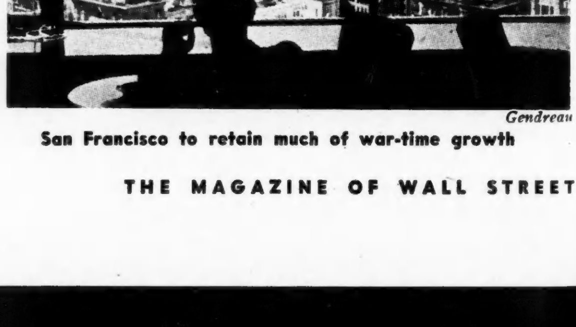
The threat of post-war deflation obviously centers on these areas of greatest expansion. What happens in these problem areas will depend on the degree of over-expansion, the success in reconverting war-plants but also on the resourcefulness of industrial and community leaders. A wealth of new facilities and skilled labor exists, making them areas of unusual opportunity. However, they also offer unusual problems.

The magnitude of our war effort and the resultant threat of disturbances to our coming peace-time economy portends immeasurably greater needs for readjustments than after the first World War. Yet the difficulties may well be less than commonly assumed for the simple reason that the regional distribution of war expansion did not greatly deviate from what might be expected from an equally great expansion in peace-time, except that extreme expansion might not have come in the same areas. Manufacturing activities obviously must swell materially beyond the 1940 level if national prosperity after the war is to be assured. And peace-time production, in turn, will expand most in those localities now having appropriate industrial facilities. Hence to the extent that the prospective peace-time boom utilizes the new war facilities, local problems will be minimized. Should added facilities be required, such as in the chemical industry where needs for post-war expansion are clearly indicated, expansion will naturally gravitate to the regions affording the greatest economic advantages.

The obvious tentative conclusion is that broadly speaking, transitional difficulties will mainly center on the problem areas mentioned before; that is, those regions where *new* centers of war-industrial activity gave primary impetus to industrial expansion. For only then could these fully share in post-war prosperity if (1) a really high level of post-war production eventuates, and (2) if local managements exercise a high degree of ingenuity in fitting their facilities into the post-war production pattern. But even under the most favorable circumstances, complete absorption is highly unlikely.

The unequal development of various parts of the country may hold important implications for manufacturers and business men, including the possible necessity of reorientation of sales efforts after the war. Over-expanded areas will have difficulties in sharing in post-war prosperity, are bound to suffer severe transitional pangs. This may be intensified by the fact that the war-time increment in income payments, relative to the national average, was by no means so unusually great in manufacturing centers. While the problem areas where industrial expansion was most extreme, were responsible for quite substantial gains in income payments, the really disproportionate advances occurred mostly in agricultural areas. The major stimulus to war-time income payments was derived from agriculture, manufacturing and Government employment, in the order given. Increases due to the latter were most pronounced in South Central states; those due to manufacturing were most marked in the Pacific states where industrial expansion, compared with pre-war, was greatest. Improvement in incomes from agriculture has been most important in North Central states where farming benefited greatly from rising agricultural prices.

Unlike the situation prevailing in agricultural states, income gains in problem areas were spent to such a degree that accumulation of savings, though relatively much larger, failed to exceed the national average. Thus accumulated savings will exert the greatest influence on post-war markets in rural areas, an important point for the business man to remember. Generally, post-war market area potentials may be expected to differ regionally from pre-war experience to the extent that war-time changes have caused (1) permanent shifts in the regional pattern of income payments, and (2) variations in regional accumulations of savings or liquid assets. The former is important only where war has resulted in a permanent departure of industry expansion and employment from previously existing trends. This should particularly accentuate the market possibilities of the South and of the East North Central region where greatest war-time industrial expansion was found conforming with long-term trends. Similarly, it highlights the prospective recessive trends in the majority of problem areas from



Gendreau

San Francisco to retain much of war-time growth

which purchasing power may be withdrawn in perhaps major degree by necessitous new migrations of surplus workers. Since many of the latter came from rural areas, they are likely to return to those, with their savings; if so, it would further boost the rural market potentials.

Since, on the whole, most important departures are due to temporary influences, pre-war trends in this respect can be expected to re-assert themselves after the war though with varying intensity. Again, an outstanding variable will be the speed and effectiveness of reconversion. For that reason, it would be a most hazardous undertaking to submit definite conclusions as to post-war income distribution, based on war-time regional shifts. However, it may be of some value to outline prospective trends, not on an absolute but on a *relative* basis.

The Middle Atlantic region, that is New York, New Jersey and Pennsylvania, should improve its position relative to its war-time experience. Between 1940-42, the share of income payments this area received, dropped sharply, reflecting relatively less benefit from war activity than the rest of the country. A return to normal peace-time condition should greatly improve the area's comparative position.

The East North Central States, comprising Ohio, Indiana, Illinois, Michigan and Wisconsin, enjoyed fair war-time stability of income because industry there was quite generally converted to war production, notably aircraft building. Additionally, the area benefited from a marked rise in agricultural incomes. Its post-war position will depend mainly on successful reconversion but should be aided substantially by the prospective boom in the automotive and consumer durable goods industries, prominently represented in the territory.

The income level of the West North Central States, including Iowa, Kansas, Minnesota and the Dakotas, has been closely tied to agricultural receipts. It materially benefited from high war-time prices for farm products but the resultant improvement cannot be expected to be permanent. In the more immediate post-war years, however, the area should at least maintain its relative position, reflecting presumably well-stabilized farm prices.

The Pacific Coast region, comprising California, Oregon and Washington and greatest prospective problem area, can hardly anticipate maintenance of current high proportion of income payments. While the latter persistently rose since 1929, a marked post-war drop appears inevitable as expansion was predominantly in ship building and aircraft for which post-war demand will be far below present extreme levels. The state of Washington especially may face a severe deflation since post-war utilization of ship building facilities and non-ferrous metals smelters may be quite difficult.

Continued Growth of South

The South Atlantic region, including Maryland, Delaware, the District of Columbia, West Virginia, Virginia, the Carolinas, Georgia and Florida should continue its pre-war growth trend at a slower pace. Industry in this region has not fully shared in war activity, especially the important textiles and paper industries were not readily convertible to major war production, but war-time income was more than sustained by Government payments. Post-war deflation of the latter should be countered by peace-time industrial trends which carried the region from fifth to third place in proportion to income received by 1940. While Maryland and the District of Columbia are problem areas, little conversion will be necessary for the group as a whole. In Maryland, ship building and

Gendreau

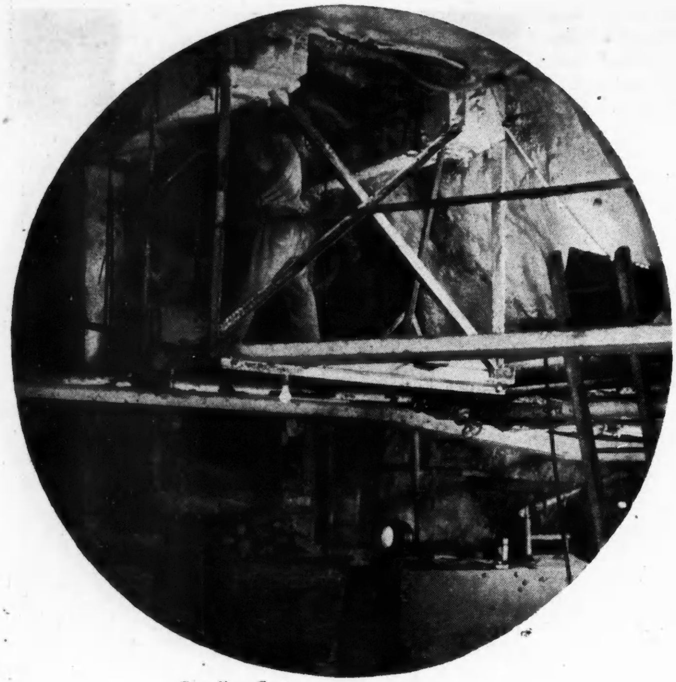
Old Boston is classed as on the down grade

aircraft manufacture will take a nose dive, as will Government employment in Washington, D. C., though decline of the latter may not be quite so precipitate.

The New England area, embracing Connecticut, Massachusetts, New Hampshire, Vermont and Maine, faces continuation of the pre-war down trend in proportionate income payments. Even in the 1942 boom year, proportionate income was below 1940. Connecticut and Maine are problem states in which aircraft and machinery manufacture as well as ship building was heavily accentuated, requiring major post-war adjustments.

The West South Central region (Louisiana, Texas, Oklahoma, Arkansas), the East South Central States (Mississippi, Alabama, Tennessee, Kentucky) and the Mountain states (Utah, Colorado, New Mexico, Arizona, Nevada, Wyoming, Idaho and Montana) received their strongest war-time impetus from Government payments and rising agricultural income. Demobilization of army camps and depots and stoppage of explosive manufacture, especially in Alabama, will be particularly felt as will the unavoidable decline in mining operations, placing Utah, a leading mining state, in the category of problem areas. Further development of the Tennessee Valley with its cheap power sources, and industrial progress in Texas and Alabama may be offsetting factors in these areas. The future of the Mountain states will hinge on the use of its raw materials resources and of war plants located there for processing them but the outlook seems rather drab. On the whole, all three areas appear to face declining tendencies except perhaps in the field of agriculture, depending on price developments.

Thus some major shifts in prospective proportionate income distribution after the war are plainly indicated but regional accumulation of savings may be instrumental in modifying, at least temporarily, the effect on business. This factor should represent a stabilizing element particularly in rural areas where savings are relatively larger and may be further augmented by the return of numbers of war workers to the farms. Still and all, most of the shifts may well be of temporary character with income distribution finally set- (*Please turn to page* 479)



Canadian Govt.

Impending Revival of GOLD

The Outlook for Shares of Gold-Mining Companies

BY H. M. TREMAINE

RECENT strength and popularity of gold mining shares suggests growing confidence in the future role of gold. Though the gold standard continues in a twilight stage, gold is back in the news, not so much as a vehicle for wealth but as a carrier for stability of wealth.

In years past, it can be said that the gold standard fulfilled the expectations of a world that was primarily interested in safeguarding against inflation. More recently, it has lost its appeal to a large part of the world dominated by recollection of a long era of world-wide depression. Having apparently failed in its primary function as an economic and monetary stabilizer, the gold standard has sunk into the discard, increasingly questioned as to its value as an efficient monetary device. The question of its resurrection, in some form, after the war has given rise to heated controversy but for the moment the latter, still inconclusive, is almost overshadowed by renewed demand for gold in many parts of the world.

In India and Egypt where inflation is rampant, gold is officially released to hoarders at premium prices to halt the inflationary trend. In India, last May, gold sold at an all-time peak of $77.25 an ounce just before the Indian Government instituted a series of anti-inflationary measures. Following official gold releases on the market, the price has since declined to about $63 but weekly sales continue at around $1,200,000. The gold offered is apparently newly mined metal from South Africa.

In the Middle East, too, demand for gold has been growing apace. In Egypt, it was fetching the equivalent of about $66 an ounce and the Government, by releasing it to the public in two ounce bars, is hoping thereby to stem the severe inflation now engulfing the country.

In Argentina and Peru, gold bars are fluctuating between $37 and $44 per ounce but gold sovereigns bring considerably more—anywhere from $44 to $52 per ounce. In Mexico, the 50 pesos gold coins command a premium of about 10%, equivalent to a gold price of between $38 and $39 per ounce. The Mexican Government, some months ago, decided to coin gold and silver pieces to attract the rapidly piling up excess funds in that country and curb speculation as well as the growing inflation which had become a matter of considerable concern.

Moreover, gold is again on the move as attested by our steadily declining gold stock, now some $800 million below the pre-Pearl Harbor peak of $22,800 million. This outflow reflects mainly the excess import balance in our cash foreign trade, now running at an annual rate of about $600 million with the bulk going to Latin American countries. Since the war, these countries have been selling us far more goods than they were able to buy here, because of shipping difficulties and war priorities. The result was a phenomenal growth of Latin American gold and foreign exchange balances which during the first nine months of 1943 increased by some $700 million to over $2000 million. Actually our gold loss since the war is probably much higher than the $800 million indicated by Treasury figures; some authorities estimate it nearer to $1300 million if new production and our imports are considered. In addition to the vast increment in Latin American gold holdings, neutral European countries are also reported to have been increasing their gold stocks. Turkish and Portuguese buyers have been reported as willing to pay 100% over the American price. The significance of this trend is obvious. Wider distribution of the world's gold means that more nations will have a stake in the perpetuation of the gold standard in some form.

Then, quite recently, interesting news has come from Russia. From a seemingly official statement appearing

in an authoritative Russian publication, an Associated Press dispatch quoted as follows: "As a country which participates in foreign trade, the Soviet Union like England and the United States is interested in the stability of currencies in those countries with which it carries on trade relations. If Soviet trade with other countries could be conducted in gold currency, undoubtedly this circumstance would facilitate trade operations."

This statement which could hardly have been made without Government approval, is significant as to the Russian attitude on the problem of post-war currency stabilization and is widely interpreted as indicating Soviet agreement with Anglo-American objectives in this field. Just how much should be read into the statement is of course conjectural but there are those who additionally see therein a possibility that Soviet Russia may side with the United States to break the deadlock with British monetary negotiators on the question of post-war currency stabilization as reflected by the contrasting features of the Keynes Plan (British) and the White Plan (American). It seems obvious that unless Russia participates in the prospective agreement, whatever its precise nature, the controlling influence will inevitably be exercised by the British Empire and the United States, as it was under the former Tripartite Agreement. Russia apparently wants to make sure that she isn't left out. Perhaps more light will be thrown on her views and intentions after the expected arrival in this country of a representative of the Russian State Bank for monetary discussions. Generally, it is felt that Russian state control of currency and foreign trade obviously rules out anything like the conventional gold standard. More probable appears the likelihood that Russia is ready to support the use of gold in international transactions and settlement of trade balances, and is interested in maintaining the value of gold, if only for the reason that ordinarily she is the second largest gold producer in the world.

Based on the widely accepted belief that this war, like preceding ones, will lead to a permanently higher price level, there is a great deal of discussion and speculation about the future price of gold and its post-war role. The ideas advanced last year by our Treasury, superseding the White Plan, make it clear that the United States will insist on adherence to gold in some relation to the dollar and late reports from England seem to reflect less opposition to the use of gold than previously implied. Together with the aforementioned Russian expression on the subject, prospects point strongly to gold as a leading feature in any international currency stabilization plan or world bank organization. Those leaning towards expectancy of a higher price level after the war are prone to anticipate an eventual higher gold price as well and while no change can be expected for the duration, an alteration of official policies in this respect after the war is regarded as feasible. Those interested in gold securities are acutely aware of such possibilities.

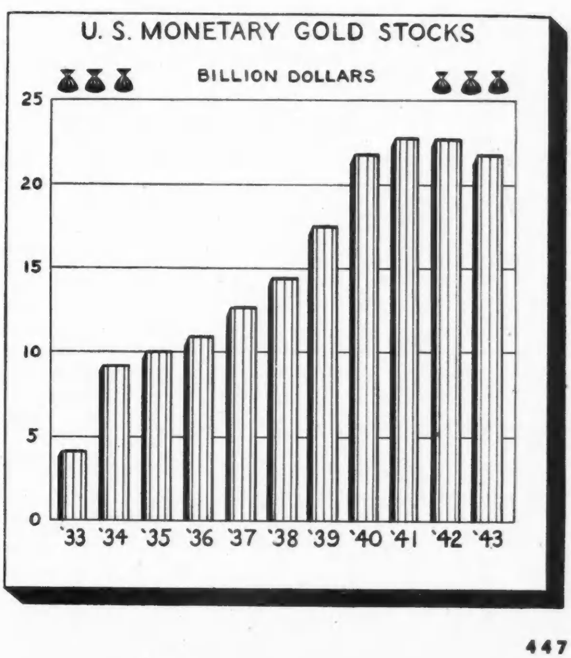
Indeed the gold problem has cast its shadow over most of the discussions dealing with international post-war stability. At one time it was suggested that future gold production be curtailed by international agreement to keep the price stable. But others quickly countered that this would be impractical since all currency plans require members to contribute gold to the central fund. This, in effect, would necessitate larger rather than smaller gold production. Conservative views tend to support the idea that if any semblance of the various plans now up for discussion is finally adopted, it would entail fairly substantial gold requirements, necessitating substantial post-war production. Most are inclined to look forward to an upward adjustment of the gold price somewhere along the line.

Meanwhile, in our own country, gold production last year fell 61% because of the war, and Utah jumped from fourth to first place among the producing states because of its copper mines which produce huge quantities of ore also containing gold. Gold output in 1943 dropped to 1,364,322 fine ounces from 3,457,110 in 1942, and the value, computed at the fixed price of $35 an ounce, from roughly $120 million to $47.7 million. Utah contributed 28%, Arizona 13%, California—previously ranking first—11%, Nevada 10%, Colorado 10%, and South Dakota and Alaska 8% each. The entire output, in fact, was largely in form of by-product recovery from other metal mining since gold mining as such has been suspended by Government edict for the duration, with few exceptions.

On the other hand, gold output held up well in South Africa, main source of the world's gold. In Canada, output has been restricted to the depressed average of the first four months of 1942, principally due to manpower shortage. In 1942, South African production was 14.1 million fine ounces, Canadian production 4.8 million, U.S.A. output 3.6 million, Latin American production 2.12 million while Russian output for that year is estimated at 3.65 million fine ounces.

The most widely held view is that with the end of the European war, gold mining in this country may well be resumed on a partial basis; full scale production, however, is not in sight until ample labor can be released for the purpose. However, many factors will determine post-war production. Paramount consideration will be the price of gold but the item of expense is almost equally important in projecting earnings possibilities. Taxes constitute the third prime determinant.

The future gold price is of course an unknown quantity but while it can be said with assurance that it will not drop below the present $35 price (per fine ounce) there is an excellent chance that a higher price will eventually materialize, both *(Please turn to page 477)*



Happening in Washington

Charles Phelps Cushing Photo

By E. K. T.

Timetable for easing of rationing and price control has been set for late 1944 or spring of 1945, dovetailed into the expected end of the war in Europe and not linked to the war in the Pacific. The resources of the Nation and its commitments abroad will be substantially less when Germany has been subdued and current plans call for freeing from point and price requirements, in this order, sugar, canned goods, meat, butter, and shoes. Tires and new automobiles will not be available for at least one year.

Washington Sees:

Many officials believe that the transition from war to peace must be eased by a program of housing and municipal facilities. The issue now is narrowing to whether private enterprise will be encouraged to tackle the job or the public treasury shall issue the paychecks.

Vice President Henry A. Wallace and Speaker Sam Rayburn have put the Administration on record as favoring a public works program of great latitude. That means, say foes of the idea, that private industry not only must grope back to peacetime operation but meanwhile provide a huge share of the money to execute the PWA-WPA style program. That on top of paying a share of the five billion dollar annual carrying charge for the costs of war, plus sharing the running expenses of the regular government establishment.

Henry J. Kaiser, production wizard, is spokesman for the growing theory that the only way to pay off the astronomic war debt and keep the economy operating is by maintenance of war levels of production during the postwar period. That conclusion holds that reversion to pre-war income levels would make it impossible to pay off even the carrying charges on the debt. Government aid is contemplated under the Kaiser plan which begins with housing.

Collapse of the rebellion by southern democratic leaders against the New Deal and the round-robin representing the attitude of farm states (which theretofore were regarded as having placed themselves beyond the pale of friendship) have brought about a unity in the ranks of the party unmatched in years. The total of these developments is to create a genuine "draft Roosevelt" movement. Advised at a White House party that the agricultural area desired him to remain at the helm, President Roosevelt commented: "Oh."

Steel Output is being levelled off because the War Production Board and other planners set their sights too high. Defense Plant Corporation will terminate seven construction contracts involving steel mills costing in excess of one hundred million dollars. Some of the plants are nearly completed but the product isn't needed for war purposes. And there is the additional problem of manpower which would be exaggerated if operations were allowed to go into full swing.

Franco's Spain has indicated its Axis leanings in a manner that has the State Department irritated to the point that friendship with that nation will be long delayed. The Allies have succeeded in keeping Germany from obtaining many needed materials and in bad shape economically. Now, Franco has made available to Germany the equivalent of one hundred million reichmarks to be used in buying raw materials in Spain. Repayment, it was explained, of Spain's civil war debt to Germany.

Universal service as proposed by the President and backed by Secretaries Stimson and Knox must win important converts before it can seriously be considered a legislative possibility. Organized labor, a weakened but still potent influence, will fight it to the bitter end; women's organizations are not united on the proposition, but for the most part oppose it. Politically it is dynamite and this is an election year.

AS WE GO TO PRESS

Administration officials and the military are not crowing publicly about it but the arsenal of democracy is about full.

Here and there guarded amounts of strategic materials are being released for civilian consumption. The list runs from steel and copper to baby buggies and diapers, to footwear and to some food products.

Translated, this action means that the country is prepared for the greatest blitz in history with enough war material on hand and expendable to meet any likely contingency reasonably to be foreseen.

Two factors contribute to this happy situation for the American and Allied forces. Production has been on a high level, thanks to labor-management cooperation. Also the curve of losses by submarines, and in battle action around the world, has been heading steadily downward. That movement has been constant for many months.

Scarce materials cut off by the enemy have been synthesized or new sources found. An overall allowance of at least fifty per cent was made for losses. Curbing the submarine warfare and other factors have brought about a steady drop.

Some small arms ammunition contracts are being cut down. Some aluminum pots are being closed down. Likewise, some steel furnaces. The magnesium situation is on a safe basis, witnessed by the fact that consumers no longer are being asked to save toothpaste and shaving cream tubes.

More than one month ago, production of pig iron was brought into balance, according to announcement from the War Production Board. Some restraints on distribution were lifted. All action has been piecemeal so that established balances in the economic setup might not be sent askew.

Barring a new world crisis, civilians will get more and more of the things they need from this point out. Production of domestic durable goods on anything resembling a normal scale still is far off however.

Government and private estimates indicate that building construction will be sharply cut during the current year. That means stockpiles of materials will be built up to a good margin of safety, pending possible war calls; if none comes, they will be released promptly.

The Copper Institute published its first report since May 1942; estimate of Government stockpiles of this critical material were at 250,000 tons. Private stocks meanwhile have increased and so has production. And, said the Institute, consumption was only slightly higher than in the preceding year.

Utilities which have been existing on a hand-to-mouth stock of their essential material are beginning to stockpile, but the trend has not been strong. Supplies for current needs have been the rule.

Already four potlines for aluminum ingots have been closed at Burlington, N. J. Several have been closed or soon will in New York and the West. The total will reach 15 in the near future. Entire stoppage has been greatly relieved. The Federal Government is bringing no new pressure for dimouts by commercial firms or homes. Some sections of the country are nearing an excess of power for their own needs. That situation has prompted utilities, Rural Electrification Administration and some members of Congress to probe the field for utilization.

All of this adds up to improvement, in the material sense, on the home front, despite professional calamnity howlers' propaganda to the contrary.

Senator Harry F. Byrd's committee to reduce nonessential Federal expenditures believes public officials are waisting taxpayers money by burdening the mails with official matter. Not surprising is the fact that the committee failed to find its own and its colleagues mail contributing to the waste.

Proposed as a cure is annual appropriation of funds to each department to reimburse the Post Office Department for mail matter offered for delivery. Net result would be a shift of the cost from the carrying agency to the other Federal entities. No one suggests there would be a saving; in fact the bookkeeping involved would add expense. Such is legislative legerdemain!

Levelling influence of war has not had effect on Civil Service Commission job description artists. Here is a call sounded for a needed expert: "one who possesses a knowlodge of epidemiology and chemotherapy, is competent in the diagnoses and control of endomoeba histolytica, and other protozon infections, knows Hindustani and is skilled in operation and use of specialized bateriological research apparatus." (The job was filled within 24 hours.)

Jerry-built wage structures continue to rise in major industries to plague the National War Labor Board and the Byrnes-Vinson-Baruch trio of the White House inflation guards.

Railroad brotherhoods are the latest group to torture the "Little Steel Formula," beneficiaries of polite fictions employed to raise wage rates while ostensibly adhering to the hold-the-line formula. Born of strike threat and rail seizures, the case of the Brotherhoods is being examined interestedly by the United Mine Workers.

Soon to come in rapid succession will be demands for like treatment by the steel workers and by those in aluminum, textiles, and motors. Demonstrable is the fact that the little steel case fixing a 15 per cent maximum wage increase fails by 10 per cent to match the rise in living costs.

Conviction is growing in Washington that talk of post-war planning--now a major industry here--will go largely for naught; that the history of the Versailles Treaty following World War I will be repeated. The Senate refused to ratify that pact and any 33 members of the Senate can block the President's proposals at the end of this war.

Post-war planning is confused in the minds of solons whose thinking often is warped by political considerations and sectional interests. Fact is that a treaty profoundly affecting the entire world for the next century can be rejected by 17 Senators if a bare quorum happens to be present. The Constitution stands in the way of any corrective.

Reparations promise to be troublesome. After the World War Germany was called upon to pay thirty-two billion dollars. Estimates of property damage done by Germany in this war run to five hundred billion dollars. Allied master minds figured a way by which Germany could pay its World War debt: they had the Allies lend the money to cancel it out.

1944 Special

Security Re-Appraisals and Dividend Forecasts

PART 1—Outlook and Ratings for Individual Foods, Rails, Utilities and Steel Stocks

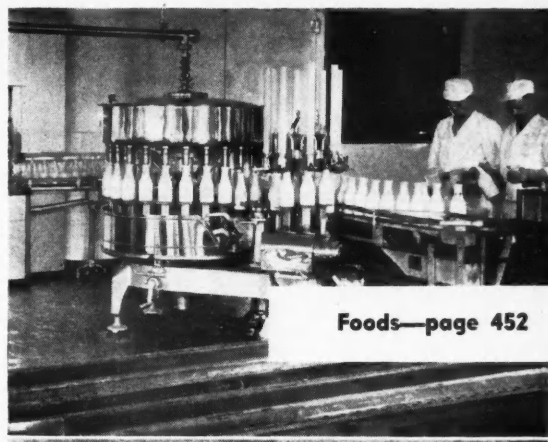
To maintain a satisfactorily dependable income from security investments—and to protect one's capital so far as possible against erosion due to new or changing conditions—it has always been important for investors to re-appraise periodically all holdings in which a risk factor is inherent, as it is in all common stocks in widely varying degrees. Today, more than ever before, methodical review and judicious "second thought" are called for under the beginnings of our transitional war-peace economy, as the much greater industrial shifts to come cast their advance shadows.

It is to meet this essential need of "stock-taking" on investment holdings that The Magazine of Wall Street, as for many years past, presents its Security Re-Appraisals and Dividend Forecasts at six-month intervals. Since our readers in the aggregate hold stocks in many hundreds of corporations, lengthy individual analyses of all important companies at one time would be manifestly out of the question because of space limitations. Moreover, only by coverage of a large number of companies, industry by industry, can this feature be of maximum usefulness to investors in the guidance that it provides as to *comparative* values and prospects. Therefore, in the material on the following pages, we have endeavored to present as concisely and conveniently as possible the most pertinent information and ratings on the maximum possible number of corporations.

The tabulated statistics, ratings and individual comments for each stock group are preceded by an extended background analysis of the position and prospects of the industry, written by qualified specialists. The grouped statistics on individual companies are self-explanatory. When carefully studied in relation to the accompanying individual comments, we believe this information represents the most practical and useful "bird's-eye" appraisal that can be devised, as well as the most convenient way whereby you can readily compare the position of your stock against those of others in its industry.

The key to our ratings of investment quality and current earnings trend of the individual stocks—next to the last column in the tables, preceding comment—is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal; while the accompanying numerals indicate current earnings trend thus: 1—Upward; 2—Steady; 3—Downward. For example, A 1 denotes a stock of High Grade investment quality with an Upward current earnings trend.

The Market Rating—last column in the tables—represents our judgment of longer-term potentials and is not intended as *current* advice on timing purchases or sales. For trend timing advice, follow our regular market analysis in the forepart of each issue. If, however, investment income is the primary objective and if one is willing to ignore interim fluctuations, stocks indicated as Favored for Income may be currently purchased. The key to these ratings is: W—Favored for Income; X—Favored for Appreciation; Y—Should Move With Market; Z—Under Average Prospects for the longer term.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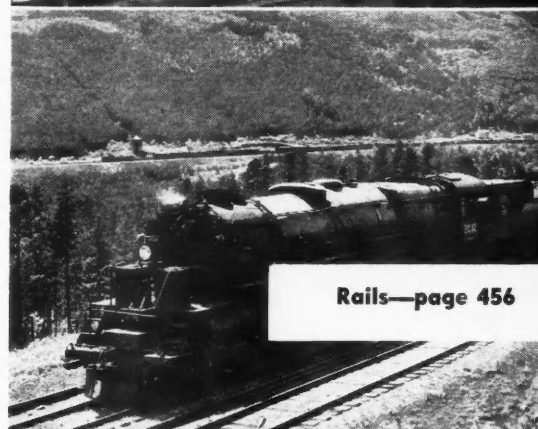
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1944 Prospects For Food Securities

BY ROGER CARLESON

Harris & Ewing

Food shopping is now a real chore

DESPITE the multifarious effects of the war on the operations of the food industry, results in 1943 make fairly pleasant reading. It is a story reflecting unexpected resiliency in a field known for its staid performance and stability of income under normal conditions. Though jolted by price controls, rationing, rising costs, labor and materials shortages, subsidies and a host of restrictions of all sorts, it managed to perform quite creditably.

With demand outrunning supply, volume of course was never in question; greatly expanded consumer income and enormous war requirements saw to that. But maintenance of fair profit margins despite the many factors militating against it attests to the ingenuity of management in overcoming frequently severe handicaps though it could not have succeeded as it did without effective Government cooperation. The latter, especially in establishing price ceilings, perforce had to consider the essential nature of the industry. The slogan "Food will win the War" is now taken seriously in official quarters though there was a time when it seemed otherwise. That the country's total food supply in 1943 proved fairly adequate was not so much due to efficient planning which in some instances left much to be desired. Rather, bumper crops in 1942 resulting in large carry-overs, and a better than average growing season in 1943 came to our aid.

With the general supply outlook fairly good and food goals raised everywhere, 1944 promises further improvement in many sectors of the food industry despite persistence of war-related cross-currents which may at times affect operations. This prospect is undimmed by the possibility of partial peace this year. No diminution of demand is likely in that event; rather, food needs will continue at record highs to meet rehabilitation requirements abroad. Financially, this transitional period, when it occurs, will hardly mean a bonanza for the food industry but neither does it signify an impending deterioration of the earnings outlook. Not until the world food supply problem is well in hand and production in war-affected areas back to normal will the food industry again be subject to normal competitive factors; in the interim, which may last several years, a record volume of business seems assured.

Total food output in 1943 was 5% larger than in 1942, and 32% above the 1935-39 average. 1944 food goals envisage further increases, aiming at a total food production of 38% to 40% above the pre-war average and 4% to 6% above the 1943 record output provided that yields are about average. The weather will be one of the principal imponderables in this year's production picture. Achievement of these goals will further depend on availability of adequate farm machinery, fertilizer and labor, as well as on the efficacy of price supports as production stimulants. It is against this background that future prospects must be appraised.

The weather so far has not been particularly cooperative and there are growing complaints of lack of moisture in the vital middle-western production belt. To overcome the lack of farm machinery, strenuous efforts are being made to boost output. While results so far were disappointing, freer flow of raw materials, notably steel, should henceforth speed materially the supply of needed implements. The fertilizer situation is still somewhat tight but lately tending to ease due to lessened war demands for basic chemicals. Labor is still a bottleneck despite widespread exemption of farm labor from the draft and may remain one of the principal handicaps during the forthcoming growing and harvesting season unless the pressure will be lifted by diminishing labor requirements in war industries. Another sore point is our price stabilization policy, importance of which in the food supply picture is perhaps not fully realized by the general public.

To combine the three objectives of maximum food production, price stabilization and fair returns to the farmers and processors into an effective program is at best an exceedingly delicate and complex task requiring a centralized program and unified purpose. Both have been lacking so far. Due to diversity of control and the injection of pressure politics, our attempts at price stabilization unfortunately have been found to interfere with the orderly flow of food to the consumer, and failed in its purpose of encouraging food production to the fullest measure. The future handling of our subsidy policy, now entangled in congressional maneuvers, therefore is by no means a negligible factor in the outlook picture. Its effects go right down to the processor, wholesaler and

retailer, quite apart from the primary impact on the farmer to whom we must look for our food supply.

In terms of civilian supply, the per capita food supply available in 1944 should about equal that of 1943. War requirements then took 25% of the total with 75% remaining for civilians. Of the former, the military got 13%, lend-lease 10% and 2% were required for miscellaneous purposes. Both lend-lease requirements and those of the armed forces will increase in 1944 but if the expected 4% to 6% boost in total food output eventuates, the civilian share will still be close to that of last year.

From the civilian standpoint, the dairy situation is probably least promising in the over-all food picture. Existing curbs on consumption of fluid milk and manufactured products are likely to be broadened this year. While meat production is now at a seasonal peak, it will decline later, possibly forcing consumption below the 1943 average. Canned fruits will continue scarce and so will the commercial supply of canned vegetables. Sugar, coffee, cocoa and tea are ample due to vastly improved shipping conditions but this may change later. The cereal supply now appears adequate but the weather, determining yield, will tell the final story. Grain reserves, once huge, have been dwindling fast and we are now far more dependent on good harvests.

However, barring severe crop failures, the food industry in 1944 can look forward to a year of record business in line with the projected expansion of the total food supply. What this may mean to the various sectors of the industry naturally cannot be foretold with accuracy, in view of existing imponderables and possible later changes in vital factors affecting the outlook, but a fair idea can be given on basis of past experience.

The important canning trade, for instance, last year was subjected to a variety of cross currents. Vegetable and fruit packs slumped materially, largely due to labor shortage on the farms but container problems also contributed. As a result, and despite satisfactory margins, earnings of leading canners declined though the downtrend was fortunately narrowed by the excellent salmon pack and stepped up production of other items. 1944 plans foresee increased acreages and better price arrangements to recover last year's loss in packs. Most container difficulties have been ironed out but the labor problem may still have to be solved to insure full recovery. It may well be less severe than last year since better price arrangements should attract greater numbers of seasonal workers.

Concentration of Alaskan salmon canning should again make for large packs and lower costs. Other fisheries are faring less well because of lack of fishing vessels, many of which were requisitioned for patrol work. Profit possibilities of fresh fish sales are obscured by the uncertain effect of recent ceiling changes. On the whole, however, the canning industry in 1944 anticipates at least full profit recovery to earlier levels provided that crops are up to standard.

Corn refiners should also do better as corn supplies appear assured for sustained operations. Difficulties in this respect arose in mid-1943 when refiners found it impossible to secure supplies at the basic ceiling price, causing a two week shut-down of major plants. Competition for corn for animal feed continues strong but the large 1943 crop should dissipate fears of a recurrence of supply difficulties. Moreover, profit margins previously squeezed by prevailing corn costs, have widened materially with recent permission of a price increase of $7 per ton on by-product animal feeds of which nearly half a million tons are produced annually. While this does not fully restore former margins, further price adjustments or subsidies may be granted in coming months. Generally, 1944 operating income should improve moderately, probably reaching the favorable 1942 levels.

Food brand purveyors, such as General Foods and Standard Brands, will reflect the aforementioned trends insofar as the respective lines are concerned. This is especially applicable to frozen food lines which should continue their uptrend. But principal gains are indicated in the coffee, tea and cocoa lines where larger imports are materially boosting sales. Moreover, new product expansion should contribute to expected sales gains. While stocks of coffee, tea and cocoa are ample and trade allotments liberal, it is not impossible that the supply situation may again tighten later in the year when military demands coincident to the opening of a second front may preempt a good deal of shipping now available for imports of these commodities. Meanwhile, with margins maintained at satisfactory levels, further gains in operating income appear probable in 1944.

Efforts to bolster declining production of fluid milk and manufactured dairy products will determine whether 1943 gains in operating income by principal dairy concerns will be extended or partially relinquished in 1944. According to the present outlook, milk production may decline to 116 billion pounds from about 118 billion pounds last year, the result of rising feed costs, smaller feed supplies and labor shortages which has been hampering dairy farmers throughout most of last year. Weather and crop yields are of course important but institution of a really effective subsidy program may do far more in correcting the situation especially as far as manufactured milk products are concerned. Fluid milk sales have been subject to controls since last September in order to boost butter and cheese production but so far with indifferent success; therefore rationing may be extended to fluid milk as well. Since profits on milk sales are small, but larger on manufactured products, this would, if anything, benefit the dairy companies by further boosting their average prices. Product expansion, notably of Borden, and unrestricted sales of ice cream to the armed forces are additional factors sustaining income, despite

British Combine

The warehouses were never fuller

the added tax burden arising from prospective gains in operating income.

The outlook for bakery companies continues to favor further sales expansion, reflecting high consumer spending power and rationing of other foods. Commercial bakers have been doing quite well and profit margins widened considerably with larger volume and various operating and marketing economies which more than compensated for higher ingredient and labor costs, on an over-all basis. While margins on bread shrank in consequence of higher flour prices instituted in January 1943, profits on cakes and pastries sales rose, pushing 1943 earnings well above those of the preceding year. Prospects are that this trend will continue this year. Since baking stocks are still reasonably priced in relation to prospective earnings, they have above average appeal. Continental Baking may well increase its dividend. General Baking, in the absence of a tax carry-over, may have to pay out the bulk of prospective income gain in taxes but net should hold up satisfactorily.

Large Government business in addition to heavier civilian demand has benefitted the biscuit makers. Soft wheat used in biscuit making at times was scarce last year but adequate supplies now seem assured and a moderate sales uptrend is indicated. In a pinch, they could use low-protein hard wheat, especially for the manufacture of crackers, so that no interruption in operations is likely on that score. Production and marketing economies stemming from large volume sales, plus benefits from the flour subsidy, should maintain profit margins at comfortable levels. Should the subsidy be discontinued, compensatory price advances will no doubt be granted.

Packaged cereal processors, too, have excellent sales prospects, aided by high consumer income and restricted civilian supplies of other foods. True, profit margins have narrowed as product ceilings remained unchanged despite rising ingredient and labor costs but this is partly offset by efficiency gains resulting from expanded volume and fuller utilization of facilities. Thus, despite volume gains, the price squeeze prevented any marked gains in 1943 net. However, there is a prospect that margins this year may be restored either by subsidies or higher product ceilings; in the absence of such relief, further earnings gains may be difficult to achieve.

Milling operations will continue to reflect the heavy flour demand. Military and lend-lease requirements are huge, and domestic demand is rising but selling prices of late have been suffering from the disparity between fixed ceiling prices on flour and the advancing costs of

Position of Leading Food Stocks

	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1942 Net Per Sh.	Est.* 1943 Net Per Sh.	1936-39 Avge. Div. Per Sh.	1943 Dividends	Investment Rating	Market Rating	COMMENT
Am. Crystal Sugar	46.40	9.97	1.97	1.94Mar	1.75	1.13	1.00	C1	Y	Larger acreage plan for new crop enhances earnings prospects though narrowing profit margins and current small crop affecting 1943 results. Dividend seems safe.
Am. Sugar Refining	147.43	A	d0.52	1.41	1.50	1.31	1.50	B1	Y	Improved supply situation, continued heavy demand foreshadow further earnings gains and liberal 1944 dividends. Larger industrial sugar allotments and mounting lend-lease shipments factors.
Beatrice Creamery	39.45	5.96	2.10	3.52May	3.60	1.25	1.85	C+2	X	Well sustained earnings anticipated as curbs on fluid milk sales are offset by more profitable butter and ice cream production. Dividends could be increased.
Beechnut Packing	48.93	34.98	5.97	6.02	6.10	5.81	5.00	A+1	W	Mounting Government orders sustain capacity operations and operating income but narrowing margins retard earnings gain. Dividend is secure.
Borden	27.45	10.82	1.64	1.91	2.15	1.50	1.50	B1	W	Higher average prices from diversification of products are boosting net, enhancing investment appeal of stock. 1944 outlook favorable and dividend assured.
Cal. Packing Co.	50.22	16.67	1.90	2.74Feb	2.70	1.19	1.50	C+2	Y	Margins satisfactory but volume depends on labor supply which governs size of fruit, vegetable pack. No dividend change expected.
Cent. Aguirre Assoc.	26.32	11.54	2.89	2.48Jy	2.21Jy	2.13	2.50	B1	Y	Well maintained sugar output, increased molasses sales characterize improved outlook indicating increased earnings despite higher costs. Regular and extra dividends will probably be maintained.
Cont. Baking "A"	A	A	2.94	1.46	2.00	None	0.50	C2	X	Moderate extension of sales uptrend indicated and net should be well maintained in 1944. Dividend increase in prospect.
Corn Prod. Refg.	30.18	7.57	3.22	2.75	2.70	3.19	2.60	B2	W	Production should hold around recent levels with adequate corn supplies assured. Margins widening with better prices for by-products, should moderately aid net. Dividend unquestioned.
Cream of Wheat	5.96	4.71	2.06	1.54	1.55	2.06	1.50	C+2	W	1943 sales increase should extend into 1944 but margins may narrow somewhat though higher wheat costs largely offset by operating efficiency. Continuation regular dividend expected.
Fajardo Sugar	48.08	25.90	4.69	4.92Jy	2.78Jy	2.63	2.00	C+1	Y	improved shipping situation spurs sugar output and molasses sales, foreshadowing improved net despite rising costs. Dividend should be maintained.
Francisco Sugar	20.59	4.52	0.08	2.64Je	0.74Je	None	None	C1	Y	Sharply expanding sales of sugar, molasses due to expanding USA takings should materially add to earnings which in 1944 may exceed 1942 figure. Dividend possible.
General Baking	10.36	A	0.87	1.02	1.05	0.84	0.60	C+2	X	Further sales gains, well maintained margins in prospect but taxes limit improvement due to absence of tax carry-over. No dividend change expected.
General Foods	16.77	13.10	2.47	2.50	2.75	2.13	1.60	B1	W	Expect further gains in sales, operating income as improved shipping situation spurs coffee, tea, cocoa and dessert lines. Expansion of frosted foods should continue. Dividend unquestioned.

wheat. Effective November 30, this disparity is being compensated for by subsidies as the Government was reluctant to raise flour prices and thereby the price of bakery products to the consumer. Thus, while profit margins suffered temporarily, they are being restored as the subsidy program is taking effect. Meanwhile 1943 net has not been gaining much over 1942; it should be different in 1944 when *(Please turn to page 484)*

Position of Leading Food Stocks (Cont'd)

	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1942 Net Per Sh.	Est.* 1943 Net Per Sh.	1936-39 Avge. Div. Per Sh.	1943 Dividends	Investment Rating	Market Rating	COMMENT
General Mills	59.94	52.21	4.93	6.40May	6.45	3.13	4.00	A2	W	Well sustained net anticipated as operations continue high and temporary margin squee-e will be eliminated by subsidies or revised flour ceilings. Dividend assured.
Great Western Sugar	14.42	10.43	2.64	1.94Fe	2.00	2.88	2.00	C+1	Y	Sales from inventories plus economies in transportation costs offset smaller 1943 crop and narrowing profit margin but 1944 outlook enhanced by larger acreage plan for new crop. Dividend secure.
Guantanamo Sugar	4.45	3.46	d0.21	1.51Sep	0.28Sep	None	None	C1	Y	Heavier American purchases of Cuban sugar and molasses point to considerable earnings improvement. Betterment of company's position foreseen when pending recapitalization plan accepted.
Hershey Chocolate	11.17	13.60	3.61	5.62	5.37	3.15	3.00	B2	Y	Higher cocoa and sugar allotments, product changes and mounting military sales should sustain and possibly improve volume and net earnings. Longer range prospects favorable, dividend safe.
Libbey, McNeil & Libbey	11.28	5.90	0.39	0.90Feb	0.85	0.60	0.45	C2	Z	Earnings outlook partly depending on size of vegetable and fruit pack which contingent on labor supply. Margins satisfactory. Dividends expected to continue conservative.
Life Savers	13.06	10.05	2.80	2.76	2.95	2.48	2.30	B1	Y	Increased sugar allotments, substantial volume quota-free Government business and use of substitutes is aiding sales expansion. Margins well maintained. Liberal dividend policy imparts semi-investment appeal.
Loose-Wiles	32.69	7.17	1.59	3.98	4.10	1.41	1.25	B2	W	Moderate extension of sales uptrend expected. Wheat supply satisfactory, margins comfortable as large volume permits marked economies. Dividend should continue, unchanged.
National Biscuit	14.58	1.74	1.68	1.38	1.25	1.65	1.20	B2	W	Larger Government business, heavier civilian demand, continuance good profit margins should sustain earning power around 1943 levels. Maintenance of dividends expected.
Nat. Dairy Products	17.15	A	1.80	1.95	2.20	1.13	1.00	B2	Y	Despite curbs on fluid milk consumption, profits from manufactured products should sustain 1944 income around current levels. Continued conservative reserve and dividend policy expected.
Nat. Sugar Refg.	43.09	13.83	0.19	2.96	3.05	1.63	1.00	C1	Y	Improved shipping conditions, heavier supplies and demand spur operations and income. Expansion of chemical and industrial alcohol division aiding. Dividends may be increased.
Penick & Ford	31.38	15.19	2.83	4.36	4.30	3.06	3.00	B2	W	Capacity operations continue and temporary margin squeeze now relieved pointing to moderate earnings improvement. Dividend resonably secure giving stock good income appeal.
Pet Milk	34.51	18.20	2.04	3.08	3.00	1.13	1.00	C+2	Y	Civilian sales restricted by rationing but military and export demand heavy pointing to earnings stabilization around current levels. Post-war export potential high. Dividend secure.
Pillsbury Flour	43.71	29.27	1.85	2.13May	2.15	1.60	1.25	B2	Y	Further volume gain indicated as demand for all products in uptrend. Profit margins will be restored by subsidies or higher ceilings, pointing to moderate earnings gain. Dividend unquestioned.
Purity Bakeries	16.64	0.33	1.29	2.22	3.00	1.03	2.10	B1	X	Sales of costlier baking items continue to respond to high consumer incomes, food rationing and reduced home baking. 1944 earnings should hold well and liberal dividend may be repeated.
Quaker Oats	33.20	34.76	6.15	4.64Je	5.15Je	5.75	3.75	C+3	Y	Sales uptrend continues. Feedstuff division active. Margins will be restored by official action reversing temporary moderate earnings downtrend. Large cash needs may necessitate continuation of reduced 75c quarterly dividend.
So. Porto Rico Sugar	37.05	18.96	2.28	4.89Sep	5.63Sep	2.14	3.50	C+1	Y	Larger molasses sales should increase over-all revenues despite uncertain Puerto Rican sugar production and narrowing margins. Dividend should be maintained.
Standard Brands	4.69	1.97	0.74	0.50	(a)1.90	0.74	0.80	C+2	Y	Aggressive management and new product expansion have improved company's basic earning potential. Peace time outlook promising and current sales gains indicated. 25c quarterly dividend likely.
United Biscuit	11.61	10.68	2.15	2.61	2.65	1.34	1.00	B2	Y	Continuation of progressive sales uptrend indicated with further moderate earnings gain likely. Supply situation satisfactory, margins appear safe. Dividend will probably continue conservative.

Designation of months indicates end of fiscal year.
A—Not applicable. (a) on new common. d-Deficit.
*Where fiscal year earnings are listed, they represent actual, not estimated earnings.

Changing Status of The Railroads

BY PIERRE R. BRETEY

As measured by ton miles and gross revenues, 1943 was the best year in railroad history. However, due to higher operating expenses, including wages and above all, higher taxes, net railway operating income declined from $1,480.9 million to about $1,370 million, or 7.48%; income available for fixed charges from $1,617.7 million to some $1,520 million, or 6.04%, and net income from $958.9 million to about $880 million, or 8.22%. These earnings practically equalled those of 1929, previous peak year prior to the current war.

For 1944, gross should continue to rise, irrespective of the length of the war. Should the European phase terminate prior to mid-year, rise in gross revenues should be limited to some 5%. On the other hand, should the European phase extend beyond 1944, gross revenues should exceed those of 1944 by at least 10%. However, with exhaustion of tax carry-overs, with resultant higher overall taxes and greater expenses, especially higher wage costs, and with no corresponding increase in freight rates to offset these added costs, the industry will do well if net revenues available for charges reaches $1.4 billion (approximately $1.520 million in 1943; $1.143 million in 1942) and net income $750 million ($880 million estimated in 1943, $958.9 million in 1942).

In 1944, roads operating in the far west and southwest should make the best showings. Excluding reorganizations, further debt retirement of from $400 to $500 million is likely. No great changes in conservative dividend policies are probable.. At long last, several reorganizations promise to be consummated, namely, the Western Pacific, Soo, and Northwestern. Other reorganizations will make progress towards ultimate consummation in 1945, such as (naming only the important larger Systems), the St. Paul, Rock Island, New Haven, Seaboard, Frisco and possibly even the Missouri Pacific.

As for the longer term prospects for the rail industry, a brief historical background will furnish the perspective necessary for their proper appraisal. At the outset, let us emphasize that prior to World War 1, the railroad industry enjoyed a monopoly transportation position. As such, the industry was heavily bonded, as is the case with a corresponding current monopoly, the utility industry. This topheavy debt structure proved the industry's ultimate financial undoing in the 30's when full effects of loss of monopoly position made themselves felt.

During the 20's, the industry constantly reported gross revenues of over $6 billion, and net income after charges of between $550 and $896 million. Even in 1930, the year following the 1929 crash, railway net income was most satisfactory, namely, $523 million. Yet during this entire period, general business activity was so substantial that unfavorable underlying transportation trends were obscured. Trucks were then obtaining an increasing proportion of the most profitable railroad traffic. During this period of the '20's, gross revenues of all Class I roads accounted for some 10% of our national income, and because of their relatively prosperous condition, the roads invested some $10 billion in both new equipment and plant. Bulk of these funds were obtained from re-investment of earnings and not from the public or shareholders, since from out of the $10 billion so spent, only $500 million was secured by selling bonds, $300 million from selling preferred stock, and only $600 million from sales of stock.

As the depression deepened, the industry began to be plagued by unregulated competition chiefly from trucks and inland waterways. As a consequence, considerable pressure was exerted on the rate structure. Average revenues per ton mile (1.07c between 1926 and 1929) declined to 99c in 1933 and to 93c in 1941. These new competitive factors resulted in a new re-alignment of handling of traffic, and the share of the railroads fell in this period from 10% to 6% of our national income. One-third of all railroad mileage, admittedly not the most important part, succumbed in the '30's to adverse competitive and depression factors combined, 29 carriers seeking the refuge of the Courts. Little recognized by investors during the latter part of this period, beginning about 1939, was a fundamental change, one of extreme importance to the industry. What was this fundamental

change? The stabilization of railroad traffic vis-a-vis its competitors. Between 1937 and 1940, ton miles of revenue freight carried by all Class I roads averaged 65% of all traffic moved in the United States, this at a time when competitive traffic was in process of being regulated by the I.C.C. with resultant lifting of pressure of lower rates.

The importance of lifting of pressure on rates can scarcely be overemphasized. For it is generally recognized today by all students of railroad finance that the deterioration of the rate structure played an important part—if not the determining part—in the collapse of railroad credit. In fact, it might be argued that railroad credit might well have been maintained despite loss of monopoly position, and the burdens of a heavy debt structure, had not the rate structure been so undermined.

Admittedly, the rails became major beneficiaries of the War. Gross revenues, averaging well below $4 billion in th '30's, rose to $5.2 billion in 1941, $7.4 billion in 1942, and probably over $9.0 billion in 1943. Net railway operating income, averaging $500 million in the '30's, rose to $998 million in 1941, $1.48 billion in 1942, and $1.37 billion (estimated) in 1943. Increase in cash resources more than parallelled the rise in earning power, the industry benefitting from some measure of tax shelter in possessing a large capital base, and large Excess Profits tax carry-overs.

At first these cash resources were utilized to eliminate current indebtedness. Subsequently, Class I roads began to embark on a policy of reducing funded debt. The debt reduction since 1930, and particularly since 1939, has been notable. At the end of 1930 the total rail debt was nearly $11.9 billions; at end of 1938, just under $11 billion; end of 1941, about $10.5 billions; end of 1942, $10.2 billions. The estimated reduction in 1943 is $600 million, pulling total down to about $9.64 billion. I believe the further debt reduction this year will approximate $400 million, which would reduce the aggregate to around $9.24 billion.

Moreover, the I. C. C. has announced that when 29 reorganization plans, already approved by it, are consummated, the total debt of these reorganization carriers will have been cut from over $4 billion to $1.733 millions or a reduction of some 2 1/3 billions of dollars. If Chandler Act reorganizations, or their equivalent, remain in effect, there will be a still further debt reduction of $304 millions. Allowing for all the above, we are approaching a time when total rail debt will be down to $6.6 billions.

Interest charges on the reduced debt of Class I roads will probably be in the neighborhood of $300 million by the end of 1944. To this total should be added charges for joint-facility rents. These charges range between $140 million and $180 million annually, depending on traffic volume. These latter charges do not possess the same degree of flexibility as do charges on direct debt, for in all the 29 Section 77 reorganizations approved by the I. C. C. the joint-facility rents without exception remained undisturbed, whereas only a handful of underlying liens—not over 15—have thus far emerged from these 29 reorganization undisturbed.

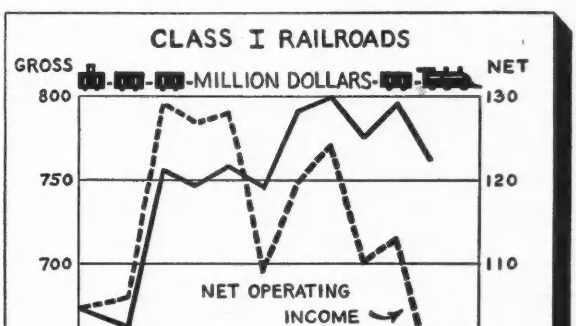
These reduced charges of some $450 million (including joint-facility rents) compare with total peak charges of $714 million in 1929, and fixed charges of $618 million as recently as 1939. In reducing their debt, the rails have accomplished a record of which they truly may be proud.

Notwithstanding application of cash resources as herein listed, net working capital of the industry has shown a startling improvement. Working capital of $1.77 billion can be contrasted with the reduced fixed charges of $450 million annually. It can truthfully be stated that never in the country's history have the rails been so well heeled financially to withstand even another earnings drought of the '30's, a repetition of which seems entirely improbable for reasons to be presently outlined.

What of the future? Virtually all economists agree that such a pent-up demand for durable goods exists to warrant the expectation of a sustained period of prosperity, following of course, a period of adjustment from a war to a peace economy. A composite estimate of our leading economists has forecast a post-war national income of $120 billion. Some put it even higher. Were the rails to continue to account for 6% of our total national income, gross revenues should then reach between $7 and $8 billion, in marked contrast to gross of $4 billion of the '30's, and $6 billion in the '20's. This would represent a new peacetime high.

These expectations may prove somewhat too optimistic. However, on the basis of what we can now foresee, a minimum gross of between $5.5 to $6.0 billion is not an unreasonable expectation. Admittedly, the rails are faced with higher wage schedules becoming increasingly rigid, with competition from trucks, pipe lines, waterways, and airplanes. Space forbids analysis of each. These were discussed in detail in our January 23, 1943, issue. But what must not be overlooked is the cushion afforded the rails by the substantial tax burden which has risen from an average of $300 million in the '30's to an estimated $1.855 million in 1943, and to a still higher probable level in 1944. Rails, even as industrials and utilities, will benefit from the carry back and carry forward provisions of the 1942 Revenue Act.

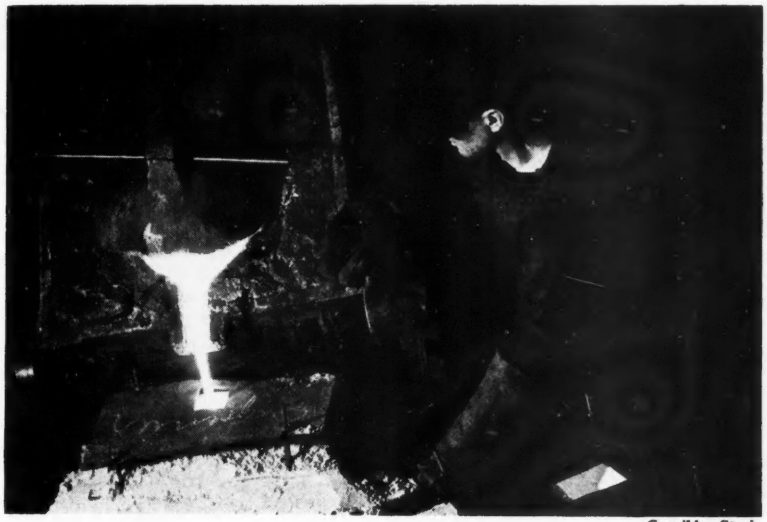
The average investor fails to take cognizance of the tax cushion afforded against a decline in earnings. He equally fails to recognize the demonstrated ability of the railroads to operate at increased efficiency as compared with a decade or so ago. For instance, in 1942, as compared with 1930, revenue ton miles increased 66%, whereas total wages increased 1.5% (despite increase in hourly and annual wages of 25.7% and 34.6%, respectively). Most important is an increase of 44.8% in ton mile per $1 of wages, and a substantial increase in ton miles per employee. These results have been made possible through utilization of (*Please turn to page* 480)



Position of Leading Railroad Stocks

Company	% Debt Reduced 1938-43	% Fixed Charges Reduced 1938-43	Increase in Working Capital 12/30/38 to 10/31/43 (Mill. $)	Earned per Share Common Stock 1942	Earned per Share Common Stock 1943 (Est.)	Div. Paid 1943	Yield %	Invest-ment Rating	Market Rating	COMMENT
Atchison, T. & S. F....	24.21	22.34	32,055	$27.79	$19.95	$6.00	10.52	B1	WX	Post war outlook for agriculture excellent. Minimum earnin of $6 per share probable. Liberal dividend policy will probab continue. Further debt retirement expected.
Atlantic Coast Line...	23.75	12.62	18,825	27.46	20.25	3.00	10.85	C3	Z	Severe contraction both gross and net at conclusion Europe phase of conflict. Majority holding of L & N lends so measure of attraction to an otherwise lack-luster issue.
Baltimore & Ohio....	13.51	17.03	60,023	16.77	NE	—	—	C1	X	1944 maturities of almost $100 million followed by almo $150 million maturities in 1948 suggests possible McLaughli Act reorganization despite substantial debt reduction alread accomplished.
Chesapeake & Ohio..	16.41	24.27	13,318(B)	4.25	3.90	3.50	7.67	A2	W	One of the few high grade credit rails. Excellent past earning Some measure of speculative attraction imparted to possib future merger to form large System with C & O the nucleu
Chicago & Northwestern	75.46(c)	75.60	89,061	13.66(f)	24.58(f)	—	—	C+1	X	Speculative possibilities lie in utilization of sizeable war swolle cash resources to retire debt. Reorganization most drastic. Ne securities should be ready by mid-year.
Chicago & Rock Island.	87.82(c)	87.40	65,008	25.10	33.00	—	—	C+1	X	New securities to be ready only in 1945. Large cash resource may also provide impact marketwise on the new securities an improve position of the common. Reorganization exceedingl drastic.
Delaware & Hudson...	31.42	12.60	10,370	9.26	9.65	—	—	C+1	Y	1943 maturity extension terms has made possible reductio of the former $50 million issue to $25 million by the 1944 yea end. Inauguration of dividends, suspended since 1931, probabl within 18 months.
Erie................	50.72(c)	56.70	23,322	5.04	3.20	1.00	9.20	C+1	Y	Under normal conditions, earning power should be sustained t maintain current $1 dividend. Management has long rang debt retirement program in mind.
Great Northern pfd...	10.61	12.22	6,872	11.63	7.80	2.00	7.12	B1	WX	Substantial reduction in fixed charges since 1934 and probabl retirement of bulk of 1946 maturity foreshadows ultimat dividend increase to at least $4 per share, justified by pas and prospective earnings.
Illinois Central.......	20.62	14.36	10,600	17.52	17.30	—	—	C+1	X	Road has made amazing strides towards putting financial hous in order. Approaching 1951 and 1952 maturities may prov troublesome. Stock highly speculative.
Louisville & Nashville.	22.13	8.26	25,310	16.59	17.40	7.00	9.39	B1	WX	High grade credit rail. Further debt retirement probable until present 66% debt is reduced to around 50% of total capitalization. Dividend relatively safe post war, and yield generous for this type of equity.
Minn. St. P. & S. S. M. (Soo)............	100.00(c)	100.00	10,673	3.34	5.50	—	—	B1	X	Drastic reorganization eliminated all fixed charges. New common, majority of which will be owned by CPR, occupies position of old 1st mtge. bonds in capital structure. Inauguration of $1 dividend probable, in 1944 or early 1945.
N. Y. Central........	11.03	7.37	99,360	7.61	8.50	1.50	9.75	C1	Y	Road faces problems of great perplexity. Debt burden heavy. However working capital of over $100 million precludes any difficulties until 1952 at least, in which year first major maturity occurs.
N. Y. Chi. & St. Louis.	17.65	22.01	7,887	19.34	19.25	—	—	C1	X	Speculative possibilities lie in ultimate merger with C & O. Until then debt retirement program restricts pfd. div. payments and arrears are piling up ahead of the common.
Norfolk & Western...	1.97	2.30	3,512	15.36	16.05	10.00	5.27	A+2	W	Highest grade rail equity. Chief beneficiary from post war abandonment of EPT. Probable extras of $5 or $6 per share post war. Real blue chip investment.
Northern Pacific......	3.30	1.86	40,110	6.57	9.35	1.00	6.83	C1	Y	Debt retirement program has not been marked to date. Working capital has shown sizable gain. Development of Pacific Northwest lends speculative flavor to these shares.
Pere Marquette......	16.28	8.50	7,344	5.30	4.35	—	—	C1	X	Speculative possibilities lie in ultimate merger with C & O. Until then debt retirement program restricts pfd. div. payments and arrears are piling up ahead of the common.
Pittsburgh & Lake Erie.	(H)	(H)	5,082	6.21	5.60	5.00	8.77	B1	WX	Road debt free. Controlled by N. Y. Central. Uninterrupted dividend record throughout the thirties. Will benefit when EPT tax is eliminated. Good grade equity.
Reading.............	16.02	10.31	5,490	8.92	6.15	1.00	5.83	C+1	Y	Outlook for anthracite vis-a-vis competitive fuels somewhat improved. Debt reduction constricts increase in dividends. Excellent past record. Good quality.
Southern Pacific......	16.30	12.10	118,761	21.28	16.20	2.00	7.47	C+1	X	Sizeable debt reduction already accomplished. Large working capital balances promises further debt retirement. Assured growth of Pacific Coast area lends considerable promise to this leading equity.
Southern Railway.....	8.67	11.58	14,734	23.41	17.00	2.00	8.83	C+1	X	Finances somewhat constrained. Further debt retirement on large scale improbable. Rapid growth of Southern territory renders outlook promising.
Union Pacific........	2.27	3.43	90,193	26.14	18.70	6.00	6.00	A1	WX	High grade equity. Large working capital being retained to retire most if not all of sizeable 1947 maturities. Co. has equity in profitable oil producing properties.
Wabash pfd.........	67.41(c)	67.43	17,264	20.27	26.80	4.50	9.47	C+1	WY	Pennsylvania controlled reorganized carrier has already retired substantial amount income bonds since emergence from reorganization two years ago. Position of preferred correspondingly improved. High yield interesting.
Western Pacific......	100.00(c)	100.00	20,863	22.15	28.32	—	—	C+1	X	Drastic reorganization with likelihood no fixed debt will be outstanding when new securities are ready by mid-summer. Growth prospects excellent. One of the most attractive reorganization equities.

(B)—Decrease in Working Capital during period. (f)—Adjusted for probable debt reduction through utilization of war accumulated Cash.
(NE)—No Estimate. (c)—Through Reorganization. (H)—Pitts. & L. Erie has NO FUNDED DEBT.



Crucible Steel

Looking Ahead With the Steel Industry

BY EDWIN A. BARNES

BETWEEN the 1942 low and the 1943 high, the industrial stock price average rose nearly 60% but the steel stocks as a whole did not do nearly as well as that. Furthermore, on the reactionary markets, several of the leading steel stocks lost a larger part of their previous gains at the lower levels reached in November 1943. They have had moderate recoveries since then. In 1942, to point out the most conspicuous example, U. S. Steel common made a low of 44¼ and the 1943 high was 59⅜, a rise of a little more than 35%. In November, 1943, it sold below 50. Bethlehem Steel went from 49½ low in 1942 to 69⅛ high in 1943, a rise of a little over 39%. It had been remarked repeatedly how poorly, relatively, these and other prominent steel shares had acted, compared to many other prominent stocks.

The reason can be found in the realization from the first that the great increase in steel production for war use would not be particularly profitable, and that there would be postwar problems to be met which might be very disturbing to the industry. This applies to the companies engaged in making the general run of heavier steel products more than to those engaged in the specialty lines, or having most of their output in the lighter items.

When the war ends, it will be found that the maximum productive capacity for steel making in the country is not far below 100,000,000 tons of ingots annually, with the 1943 output somewhere over 90,000,000, possibly near to 95,000,000. Walter S. Tower, president of the American Iron & Steel Institute, recently pointed out that peace time demand has never been above 65,000,000 tons of ingots a year, or about 45,000,000 to 50,000,000 tons of finished steel. He referred to the remarks that have been made in some quarters to the effect that the United States might need up to 120,000,000 tons of ingots a year after the war is over, and he stated that the scrap iron and pig iron production could not be found for such an ingot output, under existing facilities. The more modern and economically operated plants may be able to show profits in peace time, he pointed out, but old and higher-cost plants may have to close down.

In addition to the remarks of Mr. Tower, it might be pointed out that there will be new competition with steel after the war. A huge aluminum capacity, a very large output of magnesium, several alloy-metals, certain of the stouter and tougher plastics—from these sources may develop important competition with steel.

What about the postwar boom in the motor car and the building industries? The question is brought up by those who believe in a great demand to develop for steel products after the war. Yes, there seems to be a definite prospect for some years of activity in the motor car and building trades, but it is just there that the chance for more use of aluminum, magnesium, light alloy-steels and plastics may be seen. It is not so much from the motor car and the building trades that steel may gain, as it is from railroad car and locomotive and farm machinery making, after the war. Neither the rail equipment nor the farm implement makers, however, can be expected to take enough steel to replace the war use for the heavier products, which have gone into the millions of large bombs and shells, the tanks, airplane engines, shipbuilding, and many other war uses. Furthermore, the ending of the war is likely to find a huge supply of vehicles, shells, etc., with reclaimable steel in them of a type far more usable in its present form than scrap metal, and cheaper to melt for other uses than making new steel would be.

So, for a period of several months, possibly up to six or seven months, after the war ends, a decided slackening may be seen in the steel industry. Then, the motor and building trades may take up a large part of the slack in the lighter steel departments, with a fair amount of demand for heavier steel for railroad equipment and farm machinery, but these and other consumer lines cannot be

expected to carry production of steel to even near what it is during the war. If the war is prolonged, also, a smaller consumption in many lines of steel may develop, as some decline in demand for some types of munitions and vehicles has been seen, and building of war plants and housing for the armed forces has been on a steadily decreasing scale for months.

On the basis of these prospects, there is little to encourage expectations of a great advance in steel shares, nor for a strong investment position for many of them, during the first part of the postwar reconstruction period. Later, stocks of such steel companies as are able to demonstrate a fair profit position, should move forward to leadership if a generally strong market prevails. It has been true before and may be again, that "steel stocks hang far behind the market in the first stages of a bull market, but are the active leaders at the finish of the entire movement."

Certain of the specialized companies which are classed in the steel group, may be exceptions to this outlook. Thus, Acme Steel has had an excellent earnings record for a long period of years, earning $3 a share or better in every year starting in 1933, excepting 1938 when net was $1.14 a share. In a larger part of this period, annual earnings were above $5 a share. There are possibilities for development of a much larger production of alloy steels by Allegheny-Ludlum. Continental Steel had a good average earnings record in many pre-war years, as had Keystone Steel & Wire.

Two Outstanding Records

Public works on a large scale may be started soon after the war ends, and this may result in a large demand for various kinds of iron pipe, giving A. M. Byers Co., U. S. Pipe & Foundry and Warren Foundry & Pipe a possibility for fair profits.

The two outstanding steel companies from the point of view of long continued high earnings per share, among those in the production of general items, have been Inland Steel and National Steel. Inland Steel produces a considerable part of its own fuel and raw materials and its steel plants are well located for both rail and water shipments. The company has a rather large funded debt, which totalled $37,360,000 at the end of 1942 and a fairly large amount of capital stock, with 1,633,105 shares of no par value, but it is a larger company than is generally realized, doing over $200,000,000 total business in some years. Net earnings have been above $8 a share in a number of years during the past fifteen and averaged above $7 a share annually for the ten years from 1934 through 1943. Dividend payments have been $4.50 and $5 a share in the majority of these ten years, with the lowest payment, since 1935, being $2.50 in 1938.

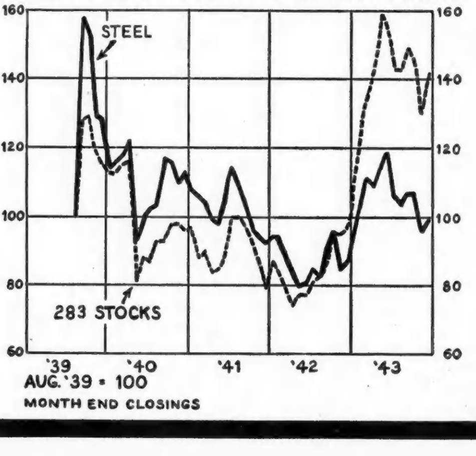
National Steel has not had quite as good a record as Inland, with its ten year average earnings per share at just under $6 a share, and its dividends have been lower, with $3.50 the highest paid in any year of this period. Its main plant is in Detroit, however, and this gives it a strategic position in relation to supplying the motor car industry with its products. Also, with the auto makers busy on war work, it has been very active and will continue so during the war period. After a lag which may follow the ending of the war, the motor car industry is expected to start on a long period of great activity, and this will have its reflection in the position of National Steel's business and earnings. The company also has a rather large funded debt, $57,865,464 bonds; and there are 2,200,072 shares of $25 par value capital stock. Its total sales have been above $200,000,000 each in the past three years.

A. M. Byers Company earnings in the 1920s were quite large, but a severe slump developed in the 1930s. The war stimulated business, and earnings showed a sharp recovery in the past three years, being above $3.50 a share average for the three years ending September 30, 1941-3. The company paid off the last of the accrued dividends on the preferred stock in 1943 and has possibilities for starting dividends on the common this year. The development of a new activity in alloy steel may be a factor in sustaining part of the recent earning power after the war. Byers has no funded debt, with 56,399 shares of 7% cumulative preferred, par $100, and 264,635 shares of no par value common.

Specialized Activities

Many of the foregoing companies are dependent more on special activities than on heavy steel production, as are the largest companies in the industry. It is for the latter that prospects are held most doubtful for the postwar era. They are United States Steel, Bethlehem Steel, Republic Steel, Jones & Laughlin Steel, Youngstown Sheet & Tube, American Rolling Mill and Colorado Fuel & Iron. Competition in peace times has always been very keen between these companies, and several of them have shown more years of poor or indifferent results in the past fifteen years than good earnings. During the war period, they have been very active and it was a fortunate thing for the United States that they had such a large productive capacity to turn out bars, plates, etc., for use in the motor vehicle, aviation engine, ship plate, tank, shell, bomb and other heavy steel uses. This large capacity in the heavier products will mean, in all probability, a great decline in activity soon after the war ends. The motor and building trades will not be expected immediately to start placing large orders for heavy products, as soon as hostilities cease in Europe. It must be remembered that there is likely to be a period after Germany is crushed while Japan is being taken care of, when the demand for war goods will be on a smaller scale, but will still be enough to prevent a full start on peace time production. This may hit the makers of the heavier steel products rather severely. It seems to be a reasonable forecast that six months or more of poor earnings for some of these companies may follow the ending of the

COMPARATIVE MARKET RECORD OF THE STEEL STOCKS DURING THE WAR PERIOD



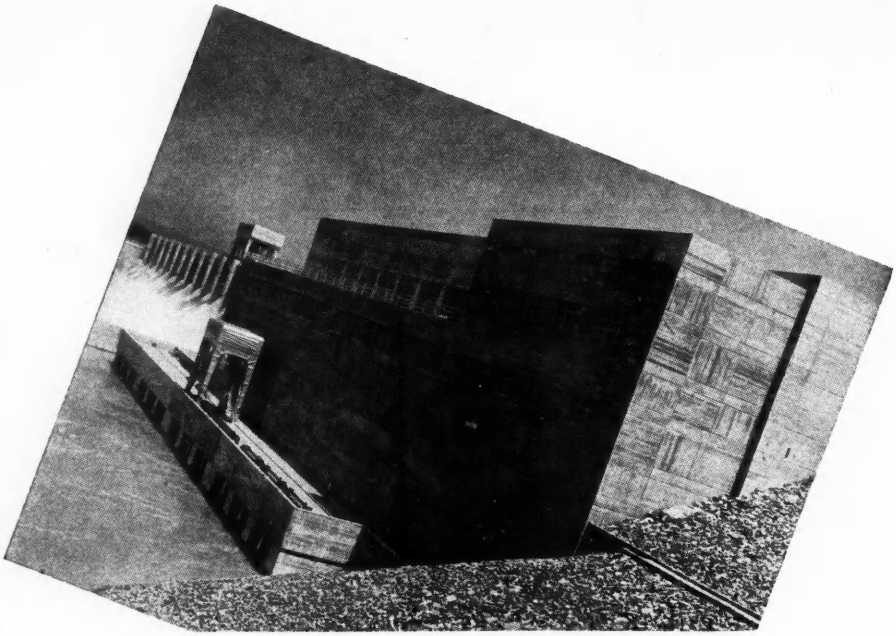
European part of the war perhaps within this year.

United States Steel has done more than five billion dollars total business in the three years which ended December 31, 1943. Of this, less than $300,000,000 remained, after all deductions, including taxes, for dividends. With over $1,000,000,000 stated value of its preferred and common stocks, average net of well under $100,000,000 a year is not a large sum, but it is large in comparison with the earnings record of U. S. Steel in the past twelve years, with a number of them in which preferred dividends were not fully covered and some with deficits before preferred dividends. In the 1930s, the best year was 1937, when $8.01 was shown on the common stock and the best year (*Please turn to page 478*)

Position of Leading Steel and Iron Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.*	1936-39 Avge. Net Per Sh.	1942 Net Per Sh.	1943E Net Per Sh.	1936-39 Average Dividends Per Sh.	1943 Dividend Per Sh.	Investment Rating	Market Rating	COMMENT
Acme Steel	$49.99	$18.21	$4.83	$6.58	$5.25	$2.94	$3.50	B2	W	Long record of good earnings and dividends. Expect $3.00 Dividend in 1944. Auto business should sustain income after the war.
Allegheny Ludlum St.	24.70	11.65	1.18	4.46	4.00	0.94	2.00	B2	Y	Company should develop new uses in many industries for its light alloy steels. The $2.00 dividend should be maintained this year.
Amer. Rolling Mill	34.15	19.16	1.23	2.65	1.80	0.99	1.00	C+3	Y	Sharp decline in activity expected when war ends, but may recover after a period of months. Probably $1.00 dividend this year.
Bethlehem Steel	142.58	68.79	3.76	6.31	(c) 8.58	2.00	6.00	C+2	Y	Shipbuilding department faces severe decline when war ends, with lower activity in many heavier steels. $6.00 payment may be shaded.
A. M. Byers	37.06	13.63	D.1.79	3.97S	(c) 2.46	None	None	C+3	Z	Clearing up all accrued dividends on preferred may be followed by small dividend on common in 1944. May develop alloy business.
Colorado Fuel & Iron	44.97	21.43	0.98	4.58J	2.39J	0.31	1.00	C+3	Z	Railroad business may sustain some departments, with others facing less activity. Expect $1.00 dividend in 1944.
Continental Steel	57.69	35.01	3.78	4.06	3.00	1.57	2.00	C+3	Y	Retirement of preferred stock in January puts common in better position. Fence wire business promising. $2.00 dividend expected 1944.
Crucible Steel	86.76	17.33	0.67	7.26	7.00	None	3.00	C+2	Y	Past four years have been good, previous earnings erratic; postwar prospects only fair. May pay $3.00 dividend again in 1944.
General Refractories	37.46	14.16	2.56	2.93	2.00	1.44	1.20	C+3	Y	New steel plants construction will decline and postwar outlook refractories operations uncertain. $1.00 dividend expected.
Granite City Steel	33.98	14.84	0.36	1.61	1.40	0.59	0.52½	C+2	Z	Earning power small, future prospects seem only fair; market interest limited. Outlook for 50 cents payment in 1944.
Harbison-Walker Refr.	24.32	5.19	1.66	1.88	1.75	1.44	1.00	C+3	Y	Company may look to other customers than steel mills for a larger part of postwar business. $1.00 dividend expected in 1944.
Inland Steel	74.96	34.23	6.82	6.57	(c) 6.62	4.00	4.50	B2	W	While some falling off in earning power may develop after war is over, generally good results are indicated. $4.00 dividend looked for.
Interlake Iron	24.35	7.46	0.18	0.76	0.55	0.16	0.35	C+3	Z	Past record poor, future not promising unless development or chemical business proves profitable. Small payment expected 1944.
Jones & Laughlin St.	72.70	48.78	D.4.39(a	5.22	4.25	None	2.00	C+3	Y	Postwar prospects seem unfavorable until heavier demand from motor trades develops. Expect $2.00 dividend in 1944.
Keystone Steel & Wire	14.63	4.27	1.43	2.37J	1.44J	0.88	1.05	C+3	Y	A great demand for wire fencing expected after the war in farming districts. $1.00 dividend indicated for 1944
National Steel	75.11	20.54	5.79	5.42	5.50	2.43	3.00	B2	X	Few companies in steel trade have had such consistent earnings and future seems generally good. $3.00 dividend expected 1944.
Republic Steel	45.88	18.91	0.85	3.20	2.25	None	1.00	C+3	Y	Company has reduced its debt, but extreme competition after the war indicated. Prospect for $1.00 dividend this year.
Sharon Steel	31.88	21.55	1.13	2.77	4.25	0.56	1.00	C+1	X	Prewar record quite mixed but recent better results should be partly sustained after the war. 1944 payment should be $1.00.
Superior Steel	21.90	8.01	1.26	4.09(b	4.50	None	0.90	C+2	Y	Funded debt has been retired. Great possibilities in copper steel alloy. 90 cent dividend should be continued in 1944.
U. S. Pipe & Foundry	43.54	13.62	3.18	4.38	(c) 2.31	2.53	2.00	B2	Y	Projected public works when war ends may be inclusive of large orders for iron pipe. $2.00 payment may be shaded in 1944.
United States Steel	140.10	60.12	2.50	5.35	(c) 4.41	0.25	4.00	C+2	X	Unless war runs through all of this year, unlikely that the $4.00 rate will be maintained. Stock has largely discounted this.
Warren Fdry. & Pipe	26.42	9.09	2.54	2.39	2.00	1.25	0.50	C+3	Y	No dividends paid since March, 1943; outlook this year for $1.00 if new mill is completed soon.
Wheeling Steel	91.85	120.19	3.15	4.61	(c) 4.68	None	1.50	C+3	Y	Heavy funded debt a handicap, excepting that in times of gain in business, common has great leverage. $1.00 div. expected.
Woodward Iron	55.58	7.29	2.88	3.85	3.25	None	1.50	C+3	Y	Considerable lag in postwar demand for pig iron possible, but longer pull outlook favorable. Indicated 1944 dividend $1.00.
Youngstown Sheet & Tube	93.13	57.22	3.93	7.60	6.00	0.81	2.00	C+3	Y	Building and motor car business should cause renewed good earnings, after initial postwar slump. 1944 dividend may be $2.00.

*Figured on common only, without deduction for senior securities. E-Partly estimated. S-Year to Sept. 30. J-Year to June 30. (a) before merger with Otis Steel. (b) before renegotiation, company reported $3.85 a share. (c) Actual earnings.



BY OWEN EL

Outlook for Utilities In Transition

DURING the first half of 1943 utility stocks of both operating and holding companies continued their broad recovery from the low point reached in the latter part of April, 1942. Mr. Morgenthau's proposal of a 55% income tax rate in the Spring of 1942 had accelerated the decline prevailing most of 1941. The volatile holding company issues had dropped 60% in 16 months, the operating stocks 40%. However, Congress gave the industry a better tax deal than had been expected, retaining the 40% rate (although the surtax rate was raised) and making other concessions.

The Securities and Exchange Commission also adopted a more cooperative policy in its enforcement of the dreaded "death sentence" and the market attitude toward utilities made a right-about-face. By July 1943 both groups had just about recovered the ground lost in 1941 and early 1942. Since that time there has been some irregularity, but a substantial part of the gains have been held, and most individual utilities currently are only about 5-8% below last year's highs.

During 1943 the holding companies apparently began to abandon hopes for an early review of Section 11 of the Utility Holding Company Act. The Supreme Court declared itself without a quorum to hear the North American Company appeal, several members having disqualified themselves. The Engineers Public Service case had to be reheard, delaying its progress toward the Supreme Court, and other cases were either withdrawn or made slow progress (the American Power & Light case is still alive, it was recently announced). In any event the recent Supreme Court decision in the Hope Natural Gas case makes it seem dubious whether the Court will find any flaws in the constitutionality of Section 11.

The holding companies, encouraged by the more sympathetic attitude of the SEC, accomplished more in their dissolution programs in the year 1943 than in the previous seven years since the Act was passed. United Gas Improvement distributed its large holdings of Philadelphia Electric and Public Service of New Jersey, and in May will "hand out" the common stock of Delaware Power & Light. National Power & Light has arranged for the retirement of remaining preferred stock, and expects shortly to distribute to the common shareholders its holdings of Carolina Power & Light and Birmingham Electric, which are being "dressed up" for the occasion (the largest subsidiary, Pennsylvania Power & Light, may not be in shape for a distribution for some time). American Power & Light is steadily reducing its funded debt (now down to about $38,000,000) by repurchases, and is expected to complete the program without selling any of its numerous equity holdings; the long standing problem of the Florida Power & Light recap-and-refunding has now been taken care of. Electric Power & Light sold its holdings in Idaho Power last Spring but has not yet gained SEC approval for the recapitalization of United Gas Corp. This has twice in the past two years been reported on the verge of solution, but each time has been held up by last minute obstacles.

Electric Bond and Share is still gradually buying in its own preferred shares and if the plan for refunding American & Foreign Power notes (which it holds) is approved, $5,000,000 more would be available. While preferred dividends are not being earned, cash and earned surplus are ample to maintain payments, providing the SEC does not enter unexpected objections. Final plans for EBS will doubtless await clearing up of the sub-holding companies, and one possibility is that the parent

company may eventually merge with American & Foreign Power after distributing other holdings to stockholders.

Cities Service Power & Light has abandoned its fight against dissolution. One subsidiary, Public Service of Colorado, has been sold and a proposal was recently placed before the SEC to retire all bonds and preferred (resorting to a $20,000,000 bank loan). With such a program consummated the way would be paved for settlement of the problems of Cities Service Company, which has about 65% arrears on its three issues of preferred, though current earnings and cash holdings are large.

Other holding companies have also been active. North American presented an elaborate plan to the SEC, which held brief hearings last September. Since then nothing has been heard of the plan, probably because triangular claims of North American, North American P. & L. and Illinois Power must be settled first. Commonwealth & Southern proposed a "recap" on an 85-15% basis, which would facilitate future distribution of subsidiary securities. Middle West is readjusting its sub-holding companies preparatory to a partial system demobilization. United Corp. is busy with plans for an exchange tender to preferred stockholders, it is reported.

However, while these varied developments have served to stimulate and maintain the market interest in utility stocks, events in other directions have been rather disappointing. The Federal Power Commission has continued its drastic campaign for writing plant accounts down to "aboriginal cost"—the cost when first constructed, whether five or fifty years ago, and regardless of prices at which properties or real estate have changed hands in intervening years. In the case of Hope Natural Gas, original cost was placed at about half the figure which the company claimed as reproduction cost, and wholesale gas rates were slashed about 62%. The lower Federal court rejected the FPC decision, but the Supreme Court came to its rescue with a five-to-three majority decision, written by former SEC Chairman Douglas. The decision was followed by a blast from Chairman Olds of the FPC to the effect that this was the forerunner of sweeping rate cuts for electric companies—though the FPC has very little to say officially about electric rates.

Fortunately, while the Supreme Court upheld the FPC rate cut against Hope, it did not definitely approve original cost, but indicated that each State or Federal Commission could follow its own philosophy so long as the "end results" are satisfactory. While the FPC may be able to influence the policies of a few state commissions (as it apparently did recently in Utah), it is thought that the majority of the state commissions and courts are likely to maintain their customary way of dealing with rates. Hence, it seems unlikely that there will be any nationwide slashing of rates at this time, particularly as operating costs and taxes are more burdensome than ever before. Rates have been in a declining trend for about as long as records have been kept, and the decline will doubtless continue, but it is to be hoped that it will be orderly and not arbitrary.

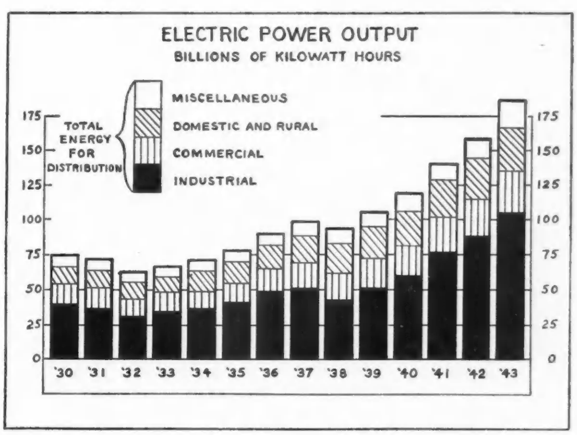
Up to several months ago 1943 utility earnings reports were modestly favorable on balance, though of course there was considerable irregularity in the interim figures, but many of the gains seem due to confusing policies with respect to accruing taxes in 1942. As stated above, many utilities expected an increase in the income tax rate and Congress kept them guessing until October 1942, when the rate was retained at 40%. Many companies had been accruing taxes at a 45 or 50% rate, and these companies in the last quarter of 1942 credited back the overlarge allowance for taxes made in the first 9 months. Thus the last quarter was very favorable, and this was included in the interim figures for the 12 months ended September 30, 1943. Results for the calendar year, with this favorable quarter omitted, will make a poorer showing for companies like Consolidated Edison. Some of the favorable holding company figures might also be trimmed down somewhat in the calendar year returns.

The outlook for 1944 earnings is also largely dependent on taxes. The excess profits rate will probably be "upped" from 90 to 95% (or, after deducting the post-war credit, from 81 to 85%). This is not nearly as serious, however, as the proposed decrease in the invested capital credit. For companies like Consolidated Edison, with a net plant account far above the $200,000,000 line, the House proposal to cut the rate from 5 to 4% has serious implications for common stockholders. However, judging from what happened in October 1942, the Senate version appears more likely to prevail. Earnings will be reduced moderately but the big companies will fare better than with the House bill.

During 1943 the electrical industry generated about 221 billion KWH—nearly double the 1936 figure, 2 1-3 times that of 1933, and nearly 6 times the 1921 level. This was accomplished with a generating capacity only one-third larger than in 1933, and about three to four times that of 1921. Despite the huge gain in production, net earnings are only about 25% larger than in the years 1933 and 1926. This is largely because taxes now absorb between 25 and 30% of gross revenues compared with less than 10% in the 1920's.

In the post-war period utilities will, of course, lose a considerable amount of industrial war business but this has not been very profitable and much of the loss would be absorbed by Federal taxes in any event. On the other hand, the residential load, which has gained very little during the war, may receive a big stimulus as soon as household electric equipment and gadgets are again freely available. Many refrigerators will have to be replaced, a large proportion of the population will want up-to-date radios—possibly with television attachments. Electric ranges and water heaters will again be wanted and the new and fancy washing machines and dishwashers will be in big demand—not to mention toasters, curling irons, heating pads, heaters, etc. The residential building boom will mean many new electric outlets. Thus the industry, on balance, should benefit rather than lose by the transition to peace.

Interest in utility stocks appears likely to be maintained by a fairly steady flow of new common stock dis-



tributions and offerings, reflecting the dissolution programs of the holding companies. Last year there were five offerings—Houston, Idaho Power, Public Service of Colorado, Central Vermont and Derby. Several are now in prospect, including Central Illinois Electric & Gas. The only trouble with these offerings is that before they will release the companies for sale, the regulatory commissions frequently order write-offs and "slap on" dividend restrictions of one kind or another. These may prove constructive in the long run, but when the news comes "late in the day" it sometimes interferes with the orderly marketing of the issue. The latest offering, Derby Gas & Electric, was quoted around 21 a few weeks before its sale to a single bidder at 15½ (for public offering at 18). Public Service of Colorado was placed with the public at a somewhat lower price than originally discussed, and a sharply critical dissenting opinion by SEC Commission Healy was published shortly before the offering date. Nevertheless, the public showed considerable interest in all five offerings because they were, in general, realistically priced.

The future earnings and market outlook for the industry is obviously in the hands of the regulatory agencies, including Congress. From an operating standpoint, the outlook remains about as favorable as could be desired. Apart from taxes which represent the most important influence on final profits of operating companies, earnings will also be governed by the extent of the rise in materials and wages. On the whole, however, the longer term outlook points to further secular growth of electric utilities. Those companies in areas which will benefit from population growth will obviously fare best as mounting expenses should be offset by revenue gains. Conversely, companies in relatively mature territories may experience stationary or slightly declining earnings unless taxes are eased.

In the natural gas field, increases in gross revenues are narrowing chiefly because of the rising base of a year ago. Costs are well controlled and earnings in most instances should at least equal if not exceed those of this year. Operating results in the manufactured gas industry are extremely mixed with principal revenue gains in important war production centers. But increased costs are largely absorbing the increment and further gains in net will hardly be forthcoming over the nearer term.

Because of greatly increased operating expenses, the former sharp earnings gains of the Traction industry are moderating to some extent. However, this industry should report substantial profits for the duration of the war. The post-war outlook is for greatly curtailed earning power and resumption of active competition from other forms of transportation. Hence for the longer term, traction securities generally lack attraction for either income or appreciation.

POSITION OF LEADING UTILITY STOCKS

Company	Book Value per Share	1936-39 Average Net per Share	1942 Net per Share	1943 Net per Share (E)	1936-39 Average Dividends	1943 Dividends Paid	Investment Rating	Market Rating	COMMENT
American Gas & Elec......	$23.83	$1.96	$2.21	$2.10	$1.69	$1.80	A2	W	Any necessary adjustments under the Holding Company Act should not have serious effects. The system operates in good territory and is ably managed. Subject to tax changes, earnings and dividends should remain steady.
American Light & Trac.....	41.11	1.60	1.78	1.50	1.26	1.20	A2	X	Liquidation under Holding Company Act slower than expected; and heavy new Detroit taxes are unfavorable. Otherwise record is excellent, and the $1.20 dividend will probably be maintained.
American Power & Light...	(2)1.72	0.30	.43	2.00	None	None	C1	X	The Florida P. & L. recapitalization-refunding is a favorable step, but some other subsidiaries require readjustment before final dissolution; a system bond refunding program may be initiated this year. Prospects for common depend largely on the recap ratio approved by SEC.
American Tel. & Tel.......	127.89	9.10	8.80	9.08	9.00	9.00	A+2	W	Company continues to cover dividend despite huge tax burden; very high depreciation and maintenance charges afford hidden earnings reserve, and taxes will help absorb any postwar earnings dip.
American Water Works.....	15.16	1.05	1.06	.50	None	None	C2	X	This holding company's problems are not serious and recapitalization should not prove necessary. While the recent earnings record is disappointing, the stock appears reasonably priced for a "leverage" issue.
Brooklyn Union Gas.......	47.43	2.56	1.75	1.80	1.55	.50	C+3	Z	This leading manufactured gas utility has a sound record but may be further hurt by rising costs of fuel, etc., in the event of a long war. It also faces heavy maturities in 1945-7.
Columbia Gas & Elec......	11.74	0.46	.19	.40	0.21	.10	C2	X	This stock is the only "marginal" holding company issue to pay a 1943 dividend. The system faces the possible necessity of having to separate electric and gas properties, and future prospects for the common are not clearly defined. The bond retirement program is expected to continue.
Commonwealth Edison.....	25.22	2.16	1.74	1.90	3.09	1.40	A+2	W	The company is conservatively managed and capitalized, but appreciation possibilities for the common are moderately affected by the remaining bonds convertible into the stock at $25 a share.
Commonwealth & South....	3.89	0.12	.06	1.75	None	None	C1	Z	While earnings have shown sharp improvement and the outlook appears favorable, the common stock has limited prospects under the proposed 85-15% recap ratio, because of the huge number of shares.
Consol. Edison of N. Y.....	46.61	2.20	1.79	1.70	1.93	1.60	A3	Z	Taxes appear likely to cut sharply into calendar year earnings and if the House tax bill is enacted the present $1.60 dividend rate might not be covered by earnings in 1944. This tends to explain the relatively high yield.
Consol. Gas, Baltimore.....	47.23	4.54	4.20	4.10	3.60	3.60	A+2	W	The company has had an excellent long-term record and enjoys a good investment rating but Houston Lighting (about same price and dividend) seems more attractive.
Electric Bond & Share......	27.73	0.25	d .40	d .38	None	None	C+3	X	With liquidating value estimated around $27, the stock appears to have appreciation possibilities, though SEC rulings may eliminate some portfolio items. Gradual retirement of the preferred stock is expected to continue.

POSITION OF LEADING UTILITY STOCKS (Cont'd)

Company	Book Value per Share	1936-39 Average Net per Share	1942 Net per Share	1943 Net per Share (E)	1936-39 Average Dividends	1943 Dividends Paid	Investment Rating	Market Rating	COMMENTS
Electric Power & Light	$13.78	$0.28	$ .75	$ .80	None	None	C1	Z	The outlook for this high-leverage issue seems dependant on the final program for recapitalizing the company and its important subsidiary, United Gas. Several months ago a plan seemed imminent, but nothing further has developed.
Federal Light & Traction	18.45	y2.38	1.51	1.75	$0.56	$1.50	B2	W	The company faces a dissolution program along with its parent company, Cities Service P. & L. Some reshuffling of properties appears likely. Federal is conservatively capitalized, with no bonded debt of its own and a comparatively small preferred stock issue.
Houston Lighting & Power	24.49	4.84	5.02	5.50	3.60	3.60	A1	X	The company has had a splendid growth record and the stock has enjoyed a good advance since it was offered to the public last year. The 30c monthly dividend has been paid for some years and is conservative in relation to earnings.
Idaho Power	(5)	(5)	2.09	2.25	(5)	(1)1.60	B2	W	This stock is another new issue, sold by Electric Power & Light in 1943 as a step in its dissolution program. The company operates a hydro-electric plant, serving an irrigated farm area, and has fine postwar expansion possibilities.
International Tel. & Tel	35.25	0.94	.33	.50	None	None	C1	Y	This high leverage issue has proved popular in the past year because of improving foreign exchange conditions, increased activity in the manufacturing division, and the role the company may play in the postwar program of rebuilding Europe.
Lone Star Gas	(5)	1.00	.89	.75	0.62	.60	B	Y	The company recently received an SEC "blessing" as a holding company which had fully conformed to the Utility Act. It has a sound record, and the dividend is conservative.
Louisville Gas & El. "A"	26.72	2.42	2.09	1.50	1.40	1.50	C+3	Z	The company may eventually be merged with its Kentucky subsidiary or dissolved. The A stock appears to lack speculative appeal and the dividend is barely covered by current earnings.
National Power & Light	17.83	1.19	.75	.90	0.60	None	C+2	X	The company has retired all its bonds and is about to redeem remaining preferred stock. Carolina P. & L. common will soon be distributed on a 1-for-6 basis and Birmingham Electric will follow on a 1-for-10. Pennsylvania P. & L., biggest subsidiary, may require recapitalization.
Niagara-Hudson Power	14.04	0.42	.30	.30	(l)0.13	None	C2	Z	The stock would receive one-fifth of a share of new common under the present recapitalization plan, which however faces possible changes. The company is having some difficulties with the N. Y. Public Service Commission.
North American Co.	15.85	1.64	1.72	1.70	(4)1.31	(w)Stock	A2	X	Little has been heard lately of the company's rather complicated plan to meet "death sentence" requirements; possibly the SEC wishes first to clear up the company's relations with North American P. & L. and Illinois Power.
Pacific Gas & Elec.	32.53	2.65	2.21	2.30	1.88	2.00	A2	W	This huge Pacific Coast company presents few regulatory problems, and has a sound accounting and financial background. Earnings show considerable stability despite heavy taxation.
Pacific Lighting	26.24	3.94	3.51	3.00	3.07	3.00	B2	Z	The company's earnings fluctuate somewhat with the trend of winter temperatures in southern California, since the amount of natural gas used for house heating is important. Dividend payments are liberal in relation to earnings.
Peoples Gas L. & C.	83.71	3.49	6.10	6.40	1.88	4.00	A1	X	This company, serving Chicago with mixed gas, has benefitted by lowered costs of natural gas. The yield is ample and the dividend well protected by current earnings, which seems to give the issue further appreciation possibilities.
Public Service of N. J.	26.54	2.15	1.22	.60	2.48	1.00	B3	Y	The company has faced a particularly heavy tax burden plus severe plant write-offs ordered by Federal and State Commissions. Possible merger with its electric subsidiary might permit a broad recapitalization program at some future date.
Puget Sound Power & Light	E14.00	5)	(5)	2.20	(5)	(3)1.20	B1	Y	The company successfully completed its refunding and recapitalization plan in 1943 and recently declared a 30c dividend following a 60c payment last fall. While 1943 earnings reflect special tax savings, the price-earnings ratio is unusually low. Fears of Government ownership appear exaggerated.
Southern Cal. Edison	23.41	2.30	1.59	1.34	1.66	1.50	B3	Y	The company's earnings have been in a downward trend recently, which appears to threaten the current dividend rate, but the company has a sound record otherwise.
United Gas Corp.	None	d0.61	d .19	d .15	None	None	C2	Z	This high leverage stock is as difficult to appraise as EL common. A recapitalization plan, possibly forthcoming in the near future, may retire the 1st preferred and dispose of heavy arrears on the 2nd preferred, with participation of the common considerably reduced.
United Gas Improvement	(6)11.12	1.04	.56	(6)	1.00	(4) .20	C+2	Z	The company expects to make its third stock distribution in May when Delaware Power & Light shares will be issued to stockholders. Remaining assets are difficult to appraise.
Washington Gas Light	42.89	2.89	2.02	2.25	2.17	1.50	A2	Y	The company has paid common dividends for thirty-two years or more. It is benefitting by present boom conditions in the nation's capitol, and in the postwar period revenues migh t shrink somewhat.
Western Union	180.30	2.46	8.95	5.50	1.06	2.00	B3	Y	Recent poor earnings reflected absorption of Postal Telegraph's deficit, but earnings may improve as merger economies are effected. The company faces heavy postwar shrinkage in business, and future planned mechanization of facilities may require additional capital.

d—Deficit. p—Preliminary. E—Estimated.
l—Represents 3 years starting with initial divided 12/15/37.
k—Represents combined common shares.
y—Fiscal years in this period ended Sept. 30.
w—Total 4 shares of Detroit Edison for each 50 shares held.

(1) Indicated rate on new stock.
(2) Parent company basis.
(3) Indicated rate.
(4) Plus stocks (company is being liquidated).
(5) Recapitalized in 1943.
(6) Company being dissolved by gradual distribution of assets.

Companies that will report increased profits for 1943 will be exceptions inviting attention. We present some examples here and forecast others to come.

SELECTED LARGE EARNERS WITH GOOD PROSPECTS

BY STANLEY DEVLIN

NO great number of corporations can be expected to show substantial gains in the forthcoming 1943 reports. For most, the volume increases of the year were much less sharp than for the previous year—making it harder to offset the higher operating costs that were the rule in most fields. Various companies also reached a less favorable earnings position as a result of exhaustion of excess profits tax credit carry-overs.

Nevertheless a fairly impressive list of corporations can be compiled among those which have reported profit gains for fiscal year periods recently ended, as shown in the accompanying tabulation. Also included are quite a few which have not issued annual reports thus far but which may be expected—on the basis of interim results or other considerations taken into account by the writer—to show sizable profit gains when the reports are released.

Of course, good earnings in a single year may not by any means imply that a given stock is a good buy for investment or speculation. The gain may be due to temporary or abnormal conditions. Indeed, a war period is replete with abnormalities in individual company situations. Therefore, I will comment briefly on certain issues and groups in the accompanying tabulation; and conclude this article by noting the limited number of companies selected as having above-average prospects for the future.

One of the demonstrated improvements is that of Radio-Keith-Orpheum which had net of about $2.00 a share on its common stock in 1943 against a deficit of 1 cent a share in 1942. Earnings on the preferred stock were about $50 a share in 1943 against $5.75 the year before. These figures are probably on the conservative side, as they allow for the same rate in the last quarter of 1943 as in the first nine months, whereas business of the company was far better in the fourth quarter than in preceding ones.

Sharon Steel is one of the few in the steel industry which is expected to show a considerable gain, with indications of about $4.25 a share for 1943 ($3.66 actual for nine months) against $2.77 for the full year 1942. This company was included in a special list of recommendations in our January 8 issue.

A number of oil companies showed fair increases over 1942, with Amerada Petroleum, Ohio Oil, Standard Oil of California and Union Oil of California among those with better than 10% gain indicated.

Among the railroads a number of increases will be found, although an examination of net earnings through November indicated that even more of the railroads will report lower net per share for 1943. Among those with the best percentage gains in the list of solvent railroads are Chicago Great Western, New York Central, Northern Pacific and Mineapolis & St. Louis (reorganized recently).

Other solvent railroads which are in line to show 10% or more increase in 1943 earnings include Canadian Pacific, International Railways of Central America, Kansas City Southern, Missouri-Kansas-Texas, Norfolk & Western, Long Island, and Louisville & Nashville.

Relatively few of the public utilities are indicated to have had a material gain in 1943 against 1942. Many of them will report somewhat less. Among the exceptions are three of the larger holding companies, with American Power & Light expected to report about $2.00 a share on its common for last year against 43 cents in 1942, with corresponding gains in the earnings on the preferred stocks; Electric Power & Light should show around 90 cents for 1943 on the common against 75 cents in 1942; Columbia Gas & Electric about 40 cents on the common against 19 cents.

Several of the meat packing companies, which completed their fiscal year October (*please turn to page* 480)

COMPANIES WITH INDICATED EARNINGS IN 1943 SHOWING 10%, OR MORE, INCREASE OVER 1942.

	Actual 1942 Per Sh.	Est. 1943 Per Sh.	1943 Div. Per Sh.
INDUSTRIALS			
Allied Stores	$2.48Ja	$3.50Ja.	$0.60
Allis Chalmers	3.34	4.25	1.25
Amerada Petroleum	4.15	5.00	2.00
Borg Warner	3.09	3.75	1.60
Bower Roller Bearing	3.54	4.25	2.50
Briggs Manufacturing	2.16	2.85	2.00
Collins & Aikman	def0.13Fe	2.00Fe	—
Evans Products	1.41	2.50	—
Ferro Enamel	0.78	2.25	0.50
Libbey-Owens-Ford	0.74	1.75	1.50
Line Material	1.32	1.85	0.50
Mack Trucks	5.00	5.75	3.00
Nash-Kelvinator	0.98	1.25	0.50
National Distillers	3.37	4.00	2.00
New York Dock	def0.84	0.75	—
Philco	1.61	2.25	1.00
Pressed Steel Car	2.17	2.80	1.00
Pullman	2.88	3.75	3.00
Radio-Keith-Orpheum	def0.01	2.00	—
Sharon Steel	2.77	4.25	1.00
Standard Oil of Cal	2.35	2.85	2.00
Superheater	1.73	2.50	1.20
Union Oil	1.19	1.60	1.00
Westinghouse Elec.	5.42	6.50	4.00
PUBLIC UTILITIES			
Amer. Power & Light	0.43	2.00	—
Columbia Gas & Elec.	0.19	0.40	0.10
Electric Power & Light	0.75	0.90	—
RAILROADS			
Chicago Great Western	2.71	4.50	—
Minneapolis & St. Louis	16.44	20.00	—
New York Central	7.61	8.50	1.50
Northern Pacific	6.57	9.35	1.00

Ja—Year to Jan. 31, 1943 and 1944.
Fe—Year to Feb. 28, 1943 and Feb. 29, 1944.
Ma—Year to May 31, 1943 and 1944.
#Figured on a basis of the proposed new securities to be issued in reorganization.

COMPANIES BUTTRESSED BY POST-WAR TAX REFUNDS

BY GEORGE L. MERTON

Early this year the Treasury announced the regulations that will govern the issuance by it of "excess profits tax post-war refund bonds". This is a very special kind of bond of peculiar significance to investors in certain corporations which have been exceptionaly active in war work and which have paid huge excess profits taxes during the war years.

Section 780 of the 1942 Revenue Act authorizes post-war refunds of 10 per cent of the amount of the excess profits tax paid by corporations for each war-time taxable year ending after Dec. 31, 1941; and directs that these "tax refund bonds" be issued as evidence of the credits established from year to year during the war. The bonds are not negotiable and bear no interest, but they will be redeemable and negotiable after the war. Thus they constitute a special kind of post-war reserve.

Two years of post-war refunds — for 1942 and 1943 — have now accumulated. Should the war last throughout this year, it is believed in Treasury quarters that tax refunds due corporations for the three years 1942-1944 will amount to a sum somewhere between $2,500,000,000 and $3,000,000,000.

It is estimated that, roughly, 53,000 corporations paid excess profits taxes in 1942; and that the number for 1943 should be approximately the same. However, it is believed that only some 43,000 will have post-war refunds due, the rest taking their credits currently for debt reduction. Under the law, up to 40 per cent of the 10 per cent refund credit can be currently applied to debt reduction. Many companies are currently utilizing this debt reduction up to the allowable limit, and will get any balance due of the 10 per cent refund of excess profits taxes after the war.

In a great many cases the post-war refunds figure to be not particularly important to stockholders; and as a safeguard against future corporate insolvencies will be less significant than the loss carry-back provision of the revenue law. On the other hand, there are numerous exceptional cases where the post-war refunds, due to small share capitalizations, figure to be a very respectable amount on a per share basis as well as important in total amount in relation to normal working capital and cash needs. It is with such companies as these that we are mainly concerned here.

Approximate EPT Post-War Refund Credits per Share

(In most cases 1943 reports will make the cumulative total nearly double the amount shown here, and 1944 will swell it further.

Crucible Steel	$4.25
Square D	2.43
National Acme	3.12
Johns-Manville	1.40
Eaton Manufacturing	2.80
Acme Steel	1.10
Thompson Products	1.62
U. S. Steel	1.14
Weston Elec. Inst.	1.47
White Motor	1.00
Bohn Aluminum	4.00
Goodrich Tire	1.43
Am. Chain & Cable	1.32
Bullard Co.	3.43
Am. Car & Foundry	4.16
Federal Mogul	1.18
N. Y. Shipbuilding	1.62
Sperry Corp.	1.07
United Aircraft	1.46

Since tax accounting is a decidedly complex matter, no one can determine the refunds due except as revealed by annual reports of the companies. The examples cited here are necessarily taken from 1942 results, though it is a reasonable assumption that companies which paid large excess profits taxes in 1942 also paid large excess profits taxes in 1943 and will do so again in 1944. In the case of war-active companies, this matter will bear watching in the coming 1943 corporate statements. No doubt we shall have occasion to comment on some of them in future issues of this publication.

As a starting example, let us cite Crucible Steel. This company's EPT tax accrual for 1942 came to $24,906,409, much more than double the total taxes it paid in 1941. Deducted from this was a credit of $610,245 for debt reduction, while amount set off for post-war refund was $1,880,395. The latter amount has been segregated by the management as a reserve for post-war readjustments. Its importance to Crucible may be indicated by the fact that it approximates $4.25 per share of common outstanding and would equal dividends on the $5 preferred stock for over 14 months. The company's most recent interim report does not permit a reliable estimate of 1943 tax refund, but since total tax accrual was little changed from comparable 1942 figures it is probable that the result will not vary greatly from 1942.

Thus it seems quite possible, if not probable, that total 1942-1944 tax refunds for this steel company may aggregate somewhere around $12 per share of common and equal preferred dividend requirements for over three and a half years. There is, of course, no assurance that stockholders will get this money in dividends, but it does constitute a very considerable bulwark to future financial strength; and whatever bolsters corporate financial prospects must be beneficial to stockholders, whether directly or indirectly.

Square D Company, maker of electrical equipment and precision instruments, shows on its books a 1942 refund credit of $1,025,000, which is equivalent to about $2.43 per share of the common stock. Interim statements suggest the 1943 amount may be not much smaller. Thus, with continuing heavy war work in the present year, the company in the war period may accumulate, aside from other reserves, a total of somewhere between $6 and $7 a share in post-war tax refunds.

Another company building up impressive tax refunds is Bohn Aluminum. At the rate indicated in the accompanying table, 1942-1944 total may approach $12 per share.

PREFERRED STOCKS FOR INCOME AND APPRECIATION

BY J. S. WILLIAMS

A great many investors find the highest grade preferred stocks, like the top grade bonds, at prices so high and yields so low as not to meet reasonable objectives for income. If yields in excess of 4½ per cent are required, some compromise must be made and the search must turn to preferreds of medium quality.

Since preferred stocks of both medium and speculative grade had a large rise in 1942 and the forepart of 1943—and have held up in most cases better than common stocks in the market readjustment since last July—buyers seeking both exceptional return and a potential for appreciation must go even below the medium grade and accept some degree of speculative risk.

Nevertheless, close study will reveal that some opportunities still exist. In the accompanying table I list five convertible preferreds, all now priced below call prices, four of which are medium grade, one semi-speculative. Yields on the former range from 4.71 per cent to 5.83 per cent; while the fifth (National Supply) offers a current return of 6.02 per cent. Aside from reasonably good income return, convertible preferreds offer an added attraction not possessed by non-convertible issues of equal quality. They represent, so to speak, an option on the common stock of the issuing company. In the event of a rise in the equity market, such stocks would participate subject to the limitation of call prices. In the latter respect, National Supply and Goodyear are most attractive, the others being fairly close to call prices.

Cumulative Convertible Preferreds (All Below Call Prices)

	Rate Paid	Current Yield
Crane	$5.00	4.78%
Goodyear Tire	5.00	4.71
Houdaille Hershey	2.50	5.93
Pure Oil	5.00	4.85
National Supply	5.50	6.02

Non-Callable Preferreds

	Rate Paid	Current Yield
Atchison	$5.00	5.84%
Am. Sugar	7.00	6.14
Asso. Dry Goods	6.00	6.37

Preferreds for High Yields and Profit

	Rate Paid	Current Yield
Crucible Steel	$5.00	7.14%
Wilson	6.00	7.22
Erie	5.00	10.00

Atchison Preferred

Atchison $5 preferred appears considerably underpriced on a longer-term basis and merits consideration both for relatively liberal income and appreciation possibilities. The issue is among the not so great number of preferred stocks that are not callable. One disadvantage is that it is non-cumulative. However, it is worth nothing that in 1936 this stock sold as high as 107 and in 1937 got as high as 104, against a current price of 85. Due to debt retirement and remarkably strong financial position, the issue is basically of considerably better quality today than it was in 1936-1937. For a great many years prior to the Big Depression the stock often was above 100.

Another high-yield non-callable issue is American Sugar, which is cumulative. The company has paid the $7 dividend since 1891. That the issue now sells on a current yield basis of 6.14 per cent is due to the fact that the margin of dividend coverage has been rather modest in recent years. However the sugar outlook appears generally favorable for several years to come, and I think this dividend is reasonably secure.

United States Steel $7 cumulative preferred is also non-callable. Now priced around 122, the current yield is about 5.73 per cent. Except under the worst depression conditions of the early '30's, dividends were regularly paid for many years and all depression arrears were paid off in 1936-1937. Noted for conservative management, the company will emerge from the war in strong financial position, and the preferred dividend seems secure.

Associated Dry Goods $6 cumulative first preferred is non-callable and there are only approximately 134,000 shares outstanding. Except under bleakest depression conditions, the dividend has been earned and regularly paid. It was maintained from 1918 through 1931, cut to $3 in 1932, omitted in 1933-1934 but the resulting arrears were cleared with total payments of $12 in each of 1935 and 1936 and of $9 in 1937. Current yield is approximately 6.37 per cent.

Other preferreds that invite consideration for reasonably good yield —all callable but all now under the call prices—include Consolidated Edison $5; Allied Stores $5; and Youngstown Sheet & Tube $5.50. Also Schenley $5.50 preferred and Champion Paper & Fibre $6 cumulative preferred, these two being currently just at their call prices.

Speculative Issues

Among speculative preferreds the new $5 Erie Railroad cumulative issue currently offers a 10 per cent yield and the dividend will be well-covered as long as war-time traffic volumes are maintained. In fact, with the drastic reduction in debt through reorganization, the new Erie should readily cover this dividend under all but severe depression conditions. In time, I think it should sell higher.

The present Crucible Steel $5 cumulative and convertible preferred was issued in October, 1940, in a recapitalization to clear arrears of $40.75 per share on the old $7 preferred. It is interesting to note that Crucible paid the $7 rate without interruption from 1919 through 1931. With financial position much improved, I doubt that the transitional or post-war situation will call for any interruption in present rate, which now yields 7.14 per cent.

Stocks Showing Major Increases In Asset Values

In Which Is It Lasting?

BY WARD GATES

ONE of the outstanding features of the war's impact on corporate financial structures is the tremendous asset expansion which occurred in all war-active industries and companies. This of course is quite a natural thing as the need for working assets rose proportionately to the steeply mounting production volume. By the same token, to achieve that volume, plant facilities had to be enlarged, leading to corresponding increments in fixed assets as well. While a goodly part of capital requirements, especially for the latter, was furnished by the Government, industry was able to a remarkable degree to finance much of its own needs either by outside borrowing or with retained earnings, the latter being quite an important factor in the over-all picture. As a result, there developed in many instances a deterioration of the *relative* working capital position despite the swelling of current and total assets. This feature deserves attention in analyzing a company's financial status both with an eye on the more immediate and longer range outlook.

War-time asset expansion is finding two-fold expression, in the form of higher book values and larger working capital. The latter is particularly notable where asset expansion is centering primarily on working assets. Higher book values additionally reflect the increase, if any, in fixed assets but also give expression to debt increases where such took place. Thus we find frequently proportionately greater increments in net quick assets than in book values. For the most part, and indicative of the Government's role as a supplier of credit, current asset expansion is the most pronounced, accompanied by a marked improvement in asset quality, that is a higher ratio of cash and marketable securities in relation to total current assets. To cite specific instances, we have prepared a list of companies where quite significant asset expansion occurred, as reflected by sizable increases in book values and net quick assets. Since these figures alone do not tell the whole story, we shall discuss in more detail additional aspects of structural changes which sometimes modify importantly the surface indications.

Allis Chalmers, leading maker of agricultural machinery but up to some months ago almost 100% in war work, was able to boost total assets from $114 million in 1940 to $184 million at the end of 1942. Of the former amount, almost 60% represented current assets while in 1942, this percentage had risen to 71%. Net working capital mounted from $52 million to $82 million but fixed assets only from $34 million to $37 million. The total asset expansion of some $70 million was largely achieved by retaining substantial parts of earnings; only some $25 million were obtained from outside sources as reflected by a similar net increase in long-term debt.

The bulk of these funds was used to strengthen cash holdings and build up inventories. The former increased fully $34 million, the latter $28 million. But while working funds expanded materially, the relative working capital position deteriorated as reflected by a drop of the current ratio from 4.5 in 1940 to 2.6 in 1942. In other words, while current assets doubled, current liabilities more than trebled. Furthermore, while net working capital during the period under discussion increased $30 million, long-term debt rose $25 million, almost completely obliterating the absolute improvement in working capital position. Thus on closer study it becomes clear that neither on an absolute nor on a relative basis, in this instance, is war-time asset expansion what it appears to be on the surface.

This leads up to another question: Will working capital be adequate for post-war needs? The answer is that this depends on post-war requirements. In 1940, a sales volume of $87 million was handled with net working capital of $52 million. (*Please turn to page 481*)

Name	Approx. Book Value $ per Share 1939	Approx. Book Value $ per Share Latest	Approx. Net Quick Assets $ per Share 1939	Approx. Net Quick Assets $ per Share Latest
Allis Chalmers	33	42	28	46
Am. Rolling Mill	28	33	14	19
Am. Laundry Machy	25	42	30	33
Bendix Aviation	14	31	6	18
Budd Mfg.	6	9	4	6
Borg-Warner	17	23	10	14
Babcock & Wilcox	33	48	17	27
Bullard Co.	11	28	5	13
Bethlehem Steel	122	143	62	70
Chi. Flexible Shaft	26	35	16	21
Celanese	14	15	20	24
Case, J. I.	152	185	142	112
Douglas Aircraft	23	88	15	57
Fairbanks Morse	38	47	25	24
Food Machy. Corp.	25	28	19	21
Goodyear	26	37	44	64
Ingersoll Rand	37	41	28	29
Internat. Shoe	23	25	18	19
Minneapolis-Honeywell	8	18	12	17
Nat. Oil Prod.	15	22	12	20
Nash-Kelvinator	9	11	5	7
Oliver Farm Impl.	60	77	43	54
Pullman	50	60	18	27
Pratt & Lambert	30	33	18	22
Timken-Detroit Axle	13	22	7	15
Underwood-Ell.-F.	33	36	24	28
United Aircraft	12	23	7	27
U. S. Rubber	25	36	43	61
Wheeling Steel	76	91	65	74
Youngstown Sheet & Tube	75	91	44	57

FOR PROFIT AND INCOME

Common Stock Yields

At the present level of prices and dividends a great many of the better known "old line" stocks yield only around a 4 per cent return. That isn't bad, compared to yields of well under 3 per cent—and in some cases less than 2½ per cent on gilt-edged bonds. However, common stocks, even the best, just are not comparable in safety to top grade bonds; and even in this new-fangled age of cheap money rates a lot of investors remain sufficiently old-fashioned to think that they ought to get more than 4 per cent dividend return—and get it without descending in choice to pretty speculative equities. There isn't any magical solution that we can offer to this problem, but we can point out at least a few stocks of much above average investment quality that still yield around 6 per cent dividend return.

For instance, there is American Gas and Electric, a notably sound utility system. At $1.80 dividend rate the current indicated yield is 6.6 per cent. Ten-year average dividends through 1943 were $1.67 a year. Chesapeake & Ohio has ten-year average of $3.15, pays $3.50 currently, and yields 7.6 per cent at present price of 46. Union Pacific has paid its familiar $6 for much more than ten years. Yield now is just a shade over 6 per cent. Other good quality equities with long dividend records which currently offer yields from about 5.5 per cent to 6 per cent are Commonwealth Edison, Inland Steel, Reynolds Tobacco, Westinghouse Air Brake and National Biscuit.

Speculation in Electronics

This column knows absolutely nothing about the technical side of radio, radar, electronics or television. Nevertheless, we have a distinct impression that radio, radar, electronics and television are all very close relatives of each other. All of which makes us a little puzzled about what's behind the speculative fad for radio stocks. (We insist on calling them radio stocks—instead of electronics stocks or television stocks—because most of them have been around for sometime and for years nobody ever thought of calling them anything *but* radio stocks.) It seems that any company that can make radio equipment can make radar, electronics or television equipment. So we kind of wonder if there is so much that is *basically* new in the industry—save huge volumes of war work. Speculative interest in radio stocks, of course, is not new. We can remember back in the '20's when some of the many speculative dreams of the day centered in radio. Unless our memory is faulty, **not a single** radio stock over all the years ever gained solid investment status on the basis of consistent earning power and dividends. Maybe it will be different this time. Maybe there are big profits ahead after the war—despite the very intense competition for which the industry always has been noted. It remains to be seen. This column, mind you, is not "sour" on the radio stocks or the electronics-television hoopla—just unconvinced. When it comes to stock selection—which pays off in painful losses if you are wrong—we just want something more to figure on than the "ain't-science-wonderful" stuff.

Federal Mogul

Last November in this column we commented favorably on Federal Mogul, then around 17. This stock has been one of the minority making new bull market highs on the January movement, getting as high as 20⅜. Unlike quite a few of the "secondary" companies which are

A television broadcast being made from General Electric station at Schenectady, N. Y. Note our accompanying comment on "television stocks."

faring much better profit-wise on war business than they ever did in peace, Federal Mogul—though its earnings are decidedly above the pre-war average—has a rather impressive pre-war record. With exception of small deficits in 1931-1932, it earned a profit in every year of its history since formation in 1924. It earned \$2.37 per share in 1937 and in the depression year 1938 it earned \$1.90 per share, followed by \$2.55 in 1939, \$2.13 in 1940, \$2.17 in 1941 and \$3.60 in 1942. Latter figure probably was approximated for 1943. The stock is priced at less than 6 times current earning power—which is not unusual—but also at only a trifle more than 10 times earnings of the depression year 1938, which is a bit unusual for manufacturing concerns in the durable goods field. It is a slow-moving stock—both ways—and we are inclined to stick patiently with it.

Canada Dry

For some time Canada Dry has been one of our favorites for longer term speculative-investment, we have commented bullishly on it more than once and there is nothing in the company's report for the fiscal year ended last Sept. 30—or in the action of the stock—to lead us to change our opinion. Sales in the 1943 fiscal year increased about 28 per cent; distributing and general overhead expense was a bit reduced and earnings before taxes increased by 43 per cent over 1942. Share earnings were \$6.98 before taxes, \$2.34 after taxes. This is a non-war company that is paying plenty in excess profits taxes. Had it been necessary only for the company to meet normal and surtax rate, net per share would have been \$5.85. When the EPT is eliminated after the war—as is a reasonable expectation—it should make a whale of a difference to this company. Of course, Canada Dry sales have been aided by the record expansion in the consuming public's spendable income but this is far from being the whole story. For some years now the present management has been building solidly and aggressively for the future by broadening distributing channels and especially by establishment of an increasing number of bottling plants near the most promising markets. Canada Dry can be regarded as a growth stock without any mystery or "romance" involved. Stated net worth equals about \$23 a share or not much different from what the stock sells for, and up from \$15 a share about five years ago.

Variations in Recent Earnings Reports

	Period	Earned 1943	Per Share 1942	Approx. Recent Price	Range '43-'44
Chesapeake & Ohio	Year Dec. 31	\$4.04	\$4.25	46	50 — 33¾
Norfolk & Western	Year Dec. 31	15.14	14.93	189	192½—162½
U. S. Steel	Year Dec. 31	4.41	5.29	52	59⅜— 47⅜
Delaware & Hudson	Year Dec. 31	19.09	12.82	21	23¼— 8¾
Caterpillar Tractor	Year Dec. 31	4.35	3.72	46	54½— 40
Erie Railroad	Year Dec. 31	3.13	5.06	11	16¾— 8¼
Reynolds Tobacco	Year Dec. 31	1.85	1.98	29	32¼— 25¼
Inland Steel	Year Dec. 31	6.62	6.57	74	78¾— 62
Wheeling Steel	Year Dec. 31	4.68	4.61	21	24½— 18
Savage Arms	Year Dec. 31	1.52	2.45	8	12½— 6⅜
Mueller Brass	Year Nov. 30	3.91	3.52	27	31 — 21⅞
Wilson & Co.	Year Oct. 30	2.74	2.70	8½	9¼— 4¼
Morrell & Co.	Year Oct. 30	3.62	3.97	37	39¼— 31½
American Type Founders	9 mos. Dec. 31	1.23	1.34	10½	12⅜— 6¾
Freeport Sulphur	Year Dec. 31	3.10	3.05	32	38¼— 29¾
Procter & Gamble	6 mos. Dec. 31	1.57	1.54	56	58 — 48½
Remington Rand	9 mos. Dec. 31	1.26	1.55	16	19⅜— 12
United Merchants	6 mos. Dec. 31	5.11	4.04	30	30¼— 16⅜
Best Foods	6 mos. Dec. 31	1.21	.47	16	17 — 8½
Liggett & Myers	Year Dec. 31	4.52	4.55	72	73½— 62¼
Loew's, Inc.	Year Aug. 31	8.01	6.82	59	64½— 42¼

Coppers

The question of where the copper stocks will be "sold out" remains to be answered. At this writing Anaconda is only fractionally above the 1943-1944 low, Kennecott is less than 2 points above its low, Phelps-Dodge about 1 point. Some further recent selling in these issues was touched off by the British Government's announcement that it would reduce its purchases of copper from Northern Rhodesia to a volume only 20 to 25 per cent of the 1943 rate of production. This does not, of course, directly affect U. S. copper companies but it does focus attention on the radically changed metals supply position and outlook for that major part of the globe that is non-Axis. It would not be surprising if U. S. and South American copper output had to be cut back before long.

Speculative Leadership

Very few "prominent" stocks have made new highs so far this year. While the list contains a fair number of stocks of medium to good grade, considered as a whole it represents the sort of market leadership that conservative analysts sniff at as "inferior." Bearing on this point of leadership, the spread between our index of 100 low-price stocks and index of 100 high-price stocks widened further in recent weeks—in favor, as has been the case for some time, of the former. Like not a few other technical "indications", the significance of this one is debatable. A bull will argue that it is bullish when speculators are more confident than investors. A bear—or a skeptic—will argue that it is not a bullish situation when investors show a persistent disinclination to buy, accompanied by at least some willingness, on balance, to let the speculators have some stock. One thing beyond argument, however, is that you never see this spread in favor of low-price stocks at a really depressed market level. You see it *after* a substantial advance has already occurred in the averages; and the spread is always quite wide at or near market tops. What we don't know, unfortunately, is just *how many points of spread* in favor of the low-price index represents a danger signal. To say that the better grade stocks are usually, on the whole, more prominent in the leadership in the first stages of a recovery, and the more speculative stocks in later phases, is another way of saying that the majority of investors buy early, the majority of speculators later—if not late.

South American Stocks

Announcement of Argentina's severance of diplomatic relations with the Axis was followed by some strengthening in South American stocks such as Swift International, Patino Mines and American & Foreign Power. The first named is a good quality stock which has paid excellent dividends for many years. The latter two are speculative, and the equity of the last-named is radically so. As regards the real significance of the Argentine development, public reaction in this country suggests that most fingers will remain crossed until and unless Argentina's fascist-type government is changed. Even looking ahead to that possibility, there would still remain basic points of friction in the triangular economic-trade relations of Argentina with the U. S. and Britain. Taken by itself, the Argentine break with the Axis seems to this column a somewhat weak reed on which to base bullishness on South American securities.

Answers to Inquiries

?

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. **Give all necessary facts, but be brief.**
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Wabash Old Preferred

What can I do about the Wabash preferred? It seems it was reorganized without my knowing it.—K. H., Syracuse, New York.

You list Wabash Railway old preferred in your letter and ask what to do about it because it was reorganized without your knowing about it. According to the terms of the reorganization under Section 77B of the National Bankruptcy Act, old preferred shareholders received warrants which entitled them to buy common shares in the new company for $12.75 per share prior to April 2, 1942, on the basis of 8½ shares of new Common for each 10 shares of old Preferred. Inasmuch as you did not accept this proposition, it appears that these shares became worthless in 1942 and you should therefore claim the loss sustained against your 1942 income tax.

Consolidated Natural Gas

I am the owner of some shares of the capital stock of the Consolidated Natural Gas Co. (formerly subsidiaries of the Standard Oil Co. of New Jersey).

This stock has recently been distributed to stockholders of the Standard Oil of N. J. Please write me what you think of this stock as an investment for a widow. Shall I hold or sell it? Also what are the dividend dates?—G. F. S. Raleigh, N. C.

Consolidated Natural Gas Company was incorporated in Delaware on July 21, 1942. It is a holding company formed to acquire from the Standard Oil Company of New Jersey the stocks of the following natural gas operating companies: Hope Natural Gas Company, East Ohio Gas Company, Peoples Natural Gas Company and River Gas Company. These companies distribute gas at retail in eastern Ohio, western Pennsylvania and northern West Virginia. They are engaged in the production of gas from their own wells and in the purchase of gas from local independent producers and from other gas companies. New York State Natural Gas Corporation is an auxiliary subsidiary.

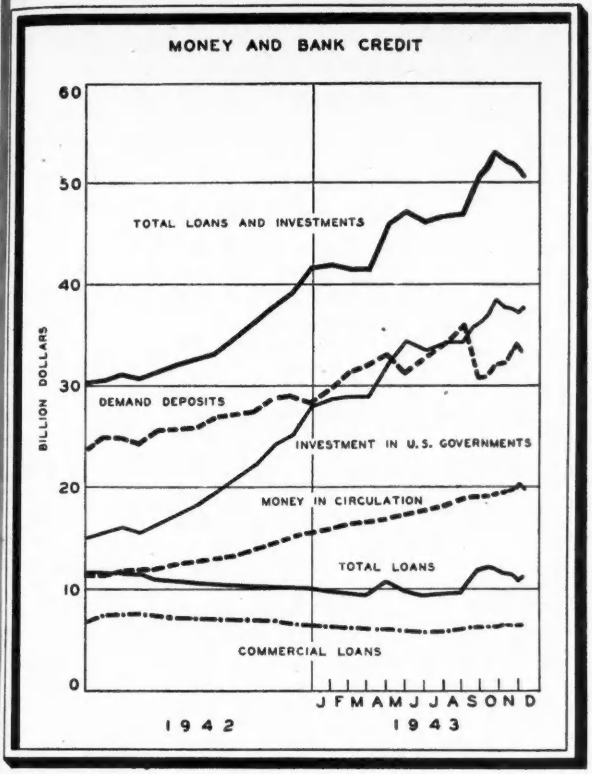
Operating subsidiaries, as of December 31, 1942, served at retail, 597 communities with an estimated population of 3,280,825 and at wholesale, 7 communities with an estimated population of 80,459. The linear length in miles of transmission pipe lines, as of January 1, 1943, was as follows: East Ohio 772; Hope 1286; Peoples 963; River 13; New York State Natural, the auxiliary subsidiary, 188; total 3222. The operating subsidiaries own and operate 88 compressor stations for pumping natural gas to transmission pipe lines, with an aggregate installed horsepower of 150,610 as of January 1, 1943. The subsidiaries own and operate plants which extract gasoline and butane from natural gas as it passes through the pipe lines on way to market. East Ohio Gas Company owns and operates a plant in Cleveland for the liquefaction, liquefied storage and regasification of natural gas. The gas utility subsidiaries own and operate gas distribution systems in cities served at retail in West Virginia, Ohio and Pennsylvania.

The proforma consolidated balance sheet, as of June 30, 1943, showed total current assets of $50,382,589 as compared with current and accrued liabilities of $19,650,765, with net current assets of $30,731,824. Cash and temporary cash investments, together total over $36,000,000 or nearly twice total current and accrued liabilities.

The company has no preferred stock outstanding, its capitalization consisting solely of 2,728,359 shares of common stock with a par value of $15.00, aside from a long term debt of $2,678,889.

Proforma earnings adjusted for the benefits lost through tax separation from the Standard Oil Company of New Jersey reveal earnings for 1942 equal to about $2.80 per share of new common stock. While these earnings are probably not typical of normal earnings, net income should continue at a fairly high level over the period of the war. Dividend payments of the constituent units have been highly irregular but have averaged better than $2.00 per share of new stock over the past five years. While the company has not announced what dividend policy it will pursue with regard to the stock on the basis of the new set-up, it is probable that dividends of $1.50 to $1.75 may be anticipated in view of the company's excellent financial position. Since the common stock was listed on the New York Stock Exchange, the price range this year has been: high 29⅝; low 24⅛; last 26. If the company pays $1.50 yearly, the indicated income yield based on a

(*Please turn to page* 483)



CONCLUSIONS

MONEY AND CREDIT—Treasury refunds to corporations on 1942-3-4 taxes expected to approach $3 billion. 1944-5 budget estimate places maximum Federal expenditures at $101 billion, including $90 billion for war, with public debt rising to $258 billion.

TRADE—Department Store sales for four weeks ended Jan. 15 were 7% above last year.

INDUSTRY — War expenditures last year, at $85.1 billion, absorbed 45.5% of the estimated national gross product—against $52.4 billion, absorbing only 34.3%, in 1942.

COMMODITIES — Spot commodity prices at new war-time high; owing to drought conditions in winter food belt, and heavy Government purchases of cotton for lend-lease.

The Business Analyst

Since our last issue, this publication's weekly index of per capita **business activity** has risen to a new all-time high, topping by a small fraction the previous peak touched last year during the closing week of May. Manufacturers' **unfilled orders** for durable goods at the end of November were 11% smaller than a year earlier. **Department store sales** in the week Jan. 15 were 4% above last year, compared with a four-weeks' gain of 7%.

* * *

Corporate **dividends** declared during December amounted to $710 million, against $704 million in the like month of 1942; thereby raising the 1943 total to $3.54 billion, against $3.53 billion for the previous year. Cash dividend disbursements by the **railroads** last year, at $201 million, topped 1942 by $24 million; but disbursements by the mining, trade, finance, communication, heat, light and power industries were moderately lower.

* * *

The Treasury announces that **post-war refunds** on 1942-3-4 taxes, to corporations entitled to 10% credits provided by the 1942 Revenue Act, will amount to nearly $3 billion.

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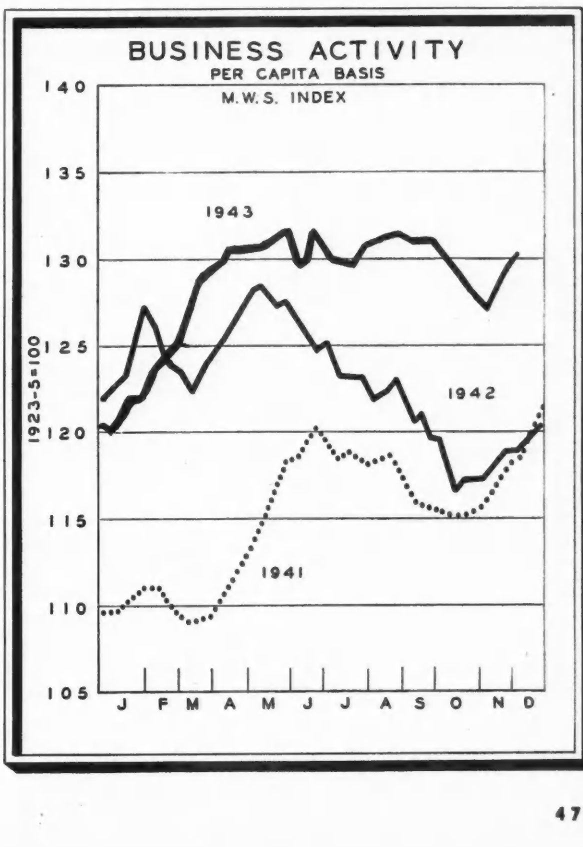


Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
FEDERAL WAR SPENDING (tf) $b	Jan. 19	1.70	1.92	1.32	0.43
Cumulative from Mid-1940	Jan. 19	158.0	156.3	72.1	14.3
FEDERAL GROSS DEBT—$b	Jan. 19	166.6	166.3	109.0	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Jan. 19	34.9	34.3	29.5	24.3
Currency in Circulation	Jan. 19	20.4	20.4	15.4	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Jan. 19	5.13	5.14	4.29	3.92
100 Other Cities—$b	Jan. 19	7.43	7.46	6.53	5.57
INCOME PAYMENTS—$b (cd)	Nov.	12.42	12.74	10.68	8.11
Salaries & Wages (cd)	Nov.	8.89	8.81	7.57	5.56
Interest & Dividends (cd)	Nov.	0.53	0.81	0.52	0.55
Farm Marketing Income (ag)	Nov.	2.01	2.25	1.76	1.21
Includ'g Govt. Payments (ag)	Nov.	2.05	2.28	1.82	1.28
CIVILIAN EMPLOYMENT (cb) m	Nov.	51.3	51.9	52.8	50.2
Agricultural Employment (cb)	Nov.	9.8	10.7	9.8	9.0
Employees, Manufacturing (lb)	Dec.	16.1	16.2	15.7	13.6
Employees, Government (lb)	Dec.	5.9	5.8	5.8	4.5
UNEMPLOYMENT (cb) m	Nov.	0.6	0.7	1.7	3.9
FACTORY EMPLOYMENT (lb4)	Dec.	170	171	165	141
Durable Goods	Dec.	233	234	216	168
Non-Durable Goods	Dec.	120	121	124	120
FACTORY PAYROLLS (lb4)	Nov.	336	333	280	189
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Oct.	45.4	44.7	43.6	40.3
Hourly Wage (cents)	Oct.	98.9	99.4	89.3	78.1
Weekly wage ($1)	Oct.	44.90	44.43	38.89	32.79
PRICES—Wholesale (lb2)	Jan. 15	103.0	102.9	101.6	92.2
Retail (cdlb)	Nov.	135.0	135.2	128.8	116.1
COST OF LIVING (lb3)	Nov.	124.1	124.4	119.8	110.2
Food	Nov.	137.3	138.2	131.1	113.1
Clothing	Nov.	133.0	133.0	125.9	113.8
Rent	Nov.	—	—	108.0	107.8
RETAIL TRADE					
Retail Store Sales (cd) $b	Nov.	5.60	5.72	4.97	4.72
Durable Goods	Nov.	0.79	0.81	0.75	1.14
Non-Durable Goods	Nov.	4.81	4.91	4.22	3.58
Chain Store Sales (ca)	Dec.	170	187	175	151
Dept. Store Sales (rb) (1)	Dec.	129	158	125	116
Dept. Store Stocks (rb2)	Nov.	97	107	105	95
MANUFACTURERS'					
New Orders (cd2)—Total	Nov.	279	284	279	212
Durable Goods	Nov.	410	421	415	265
Non-Durable Goods	Nov.	196	197	192	178
Shipments (cd3)—Total	Nov.	268	270	232	183
Durable Goods	Nov.	370	371	300	220
Non-Durable Goods	Nov.	188	191	179	155
BUSINESS INVENTORIES—$b					
End of Month (cd)—Total	Nov.	28.2	28.0	28.7	26.7
Manufacturers'	Nov.	17.9	17.8	17.7	15.2
Wholesalers'	Nov.	4.1	4.0	3.9	4.6
Retailers'	Nov.	6.2	6.2	7.1	6.9

PRESENT POSITION AND OUTLOOK

(Continued from page 473)

War expenditures last year amounted to $85.1 billion against only $52.4 billion in 1942; and absorbed 45.5% of the estimated **gross national product**, compared with only 34.3% in 1942. Tentative estimates of war expenditures, embodied in the President's budget message to Congress, call for $90 billion, compared with $91.8 billion in the current fiscal year ending this coming June 30 and $75.1 billion actually spent in the 1943 fiscal year.

* * *

Total Federal expenditures, including bond redemptions, are estimated at $101.1 billion, compared with $102 billion for the current fiscal year and an actual outlay of $80.4 billion for the 1943 fiscal year. On this basis, which rightly makes no allowance for a possible earlier than anticipated termination of the war in Europe, the **Federal deficit** in the 1944-5 fiscal year would be $57.2 billion, raising the **Federal gross debt** to $258 billion by June 30, 1945.

Out of total **net receipts** of $40.77 billion for the 1945 fiscal year it is estimated that $38.29 billion will come from taxes, and that $2.55 billion will be checked out for pensions and various forms of **benefit payments. Interest on the public debt** is estimated at $3.75 billion.

* * *

In the 33 months to Nov. 30, **lend-lease** aid to our Allies totaled $18.6 billion—13.5% of our total war expenditures.

* * *

Disclosing that some manufacturers have been hedging in the renewal of war contracts, because they hope to return soon to the production of civilian goods, Mr. Henry A. Dinegar of the WPB announces that "it is the official and settled policy of the WPB not to permit any widespread production of civilian products . . . until the success of our invasion of western Europe is assured."

* * *

"While it is unquestionably true that the metal requirements of the Armed Forces will recede somewhat with the defeat of Germany, they must be continued on fairly substantial levels until the end of the war in the Pacific. . . . The bulk of materials that will be available with the end of the European war will be required for the repair of rolling stock on railroads, the replacement of worn-out industrial and farm equipment and the production of farm processing equipment."

* * *

A "confidential" memo from WPB to the Office of Civilian Requirements is said to have mentioned three possible ways to deal with surplus materials: — to cut-back output, to stockpile, or to permit an increase in civilian con-

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Age	Pre-Pearl Harbor
BUSINESS ACTIVITY—1—pc	Jan. 15	131.1	131.0	121.4	118.2
(M. W. S.)—1—np	Jan. 15	159.1	159.0	147.9	139.5
INDUSTRIAL PRODUCTION (rb3)	Dec.	245	247	223	174
Durable Goods, Mfr.	Dec.	374	377	328	215
Non-Durable Goods, Mfr.	Dec.	175	179	169	141
CARLOADINGS—t—Total	Jan. 15	780	763	755	833
Manufacturers & Miscellaneous	Jan. 15	356	346	363	379
Mdse., L. C. L.	Jan. 15	99	100	87	156
Coal	Jan. 15	184	177	166	150
Grain	Jan. 15	57	55	53	43
ELEC. POWER Output (K.w.H.)m	Jan. 15	4,539	4,468	3,952	3,369
SOFT COAL, Prod. (st) m	Jan. 15	12.75	12.25	11.58	10.8
Cumulative from Jan. 1	Jan. 15	26.23	13.48	12.85	466
Stocks, End Mo.	Nov.	60.1	68.8	90.9	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Jan. 15	4.37	4.36	3.85	4.11
Gasoline Stocks	Jan. 15	78.40	77.65	83.58	87.84
Fuel Oil Stocks	Jan. 15	54.53	55.73	71.77	94.13
Heating Oil Stocks	Jan. 15	39.10	41.51	42.01	54.85
LUMBER, Prod. (bd. ft.) m	Jan. 15	517	492	517	632
Stocks, End Mo. (bd. ft.) b	Nov.	3.7	3.7	5.1	12.6
STEEL INGOT PROD. (st.) m	Dec.	7.27	7.37	7.31	6.96
Cumulative from Jan. 1	Dec.	88.87	81.61	86.03	75.69
ENGINEERING CONSTRUCTION AWARDS (en) $m	Jan. 20	25.5	98.7	67.9	93.5
Cumulative from Jan. 1	Jan. 20	146	120	185	5.692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Jan. 15	147	138	137	165
Waste Paper Stks., End Mo. (st)t	Dec.	109	110	395	167
No. Am. Newsprint Prod. (st)t	Dec.	335	350	338	411
Do., Stks. (mpt) End Mo. (st)t	Dec.	570	602	814	745
Wood Pulp Stks., End Mo. (st)t	Nov.	73.1	73.6	149.3	98.5
Portland Cement Prod. (bbls.) m	Nov.	9.22	11.19	16.27	14.93

PRESENT POSITION AND OUTLOOK

sumption. Manpower will largely determine the choice. At present, the orders are to cut-back.

* * *

Recent relaxation in the use of **steel** for resumed production of household conveniences, such as baby carriages, has for its major objective the release of still critically scarce materials, notably **wood,** for war needs. Earlier plans to sanction production of 4,000,000 **radio tubes** and 800,000 **telephones** for civilians have been sidetracked as interfering with military requirements.

* * *

Though **steel** ingot production was 3% larger last year than in 1942, the industry's net after taxes was probably about 7% lower. President W. S. Tower of the American Iron & Steel Institute predicts that the industry can fill post-war steel demands on an average production rate of 70% to 80% of capacity, and will have to watch costs closely to operate profitably at that level.

* * *

North American **newsprint** production last year was 8.7% under 1942. WPB says domestic pulpwood production this year must be 8% above last year to meet expanded needs.

ag—Agriculture Dep't. b—Billions. ca—Chain Store Age, 1929-31—100. cb. Census Bureau. cd—Commerce Dep't. cd2—Commerce Dept., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. cdlb—Commerce Dep't. Index (1935-9—100) using Labor Bureau & other data. en—Engineering News-Record. I—Seasonally adjusted Index. 1823-5—100. lb.—Labor Bureau. ib2—Labor Bureau. 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100 m. Millions. mpt—At Mills, Publishers & in Transit. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, adjusted index, end of Mo., 1923-5—100. rb3—Federal Reserve Board adjusted index, 1935-9—100. st—Short tons. t—Thousands. ff—Treasury & R. F. C.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

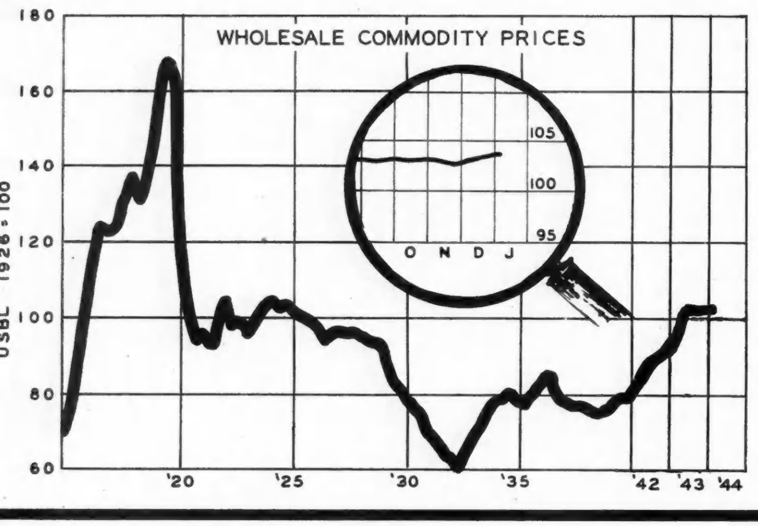
No. of Issues (1925 Close—100)	1943-4 Indexes High	Low	Jan. 22	Jan. 29
283 COMBINED AVERAGE	89.9	54.5	82.6	81.9
4 Agricultural Implements	156.5	105.2	150.7	150.7
9 Aircraft (1927 Cl.—100)	179.2	112.7	126.6	125.4
5 Air Lines (1934 Cl.—100)	560.3	363.1	436.8	430.7
5 Amusement	78.4	40.2	71.2	70.1
12 Automobile Accessories	142.1	83.0	125.9	122.8
12 Automobiles	21.0	9.7	18.3	17.7
3 Baking (1926 Cl.—100)	15.0	8.5	12.9	12.9
3 Business Machines	197.1	129.4	176.5	184.9
2 Bus Lines (1926 Cl.—100)	115.3	54.9	110.9	113.9
5 Chemicals	194.7	153.5	180.6	178.5
4 Communication	60.4	41.9	59.3	60.4G
12 Construction	38.0	23.3	34.4	34.1
6 Containers	240.4	177.1	225.4	222.6
8 Copper & Brass	82.5	61.8	64.8	64.3
2 Dairy Products	40.5	29.7	40.1	39.7
6 Department Stores	32.2	15.4	27.8	28.5
5 Drug & Toilet Articles	89.6	50.9	86.0	86.5
2 Finance Companies	237.3	152.6	231.8	223.5
7 Food Brands	131.9	85.5	125.6	126.1
2 Food Stores	47.8	37.7	46.5	46.8
4 Furniture	63.5	35.0	59.4	58.8
3 Gold Mining	1,010.4	610.3	981.2	951.0

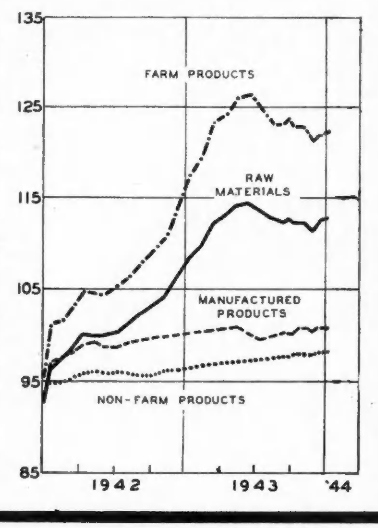
(Nov. 14, 1936, Cl.—100)	High	Low	Jan. 22	Jan. 29
100 HIGH PRICED STOCKS	68.01	52.87	64.30	63.76
100 LOW PRICED STOCKS	88.00	43.61	80.48	79.48
6 Investment Trusts	39.1	22.7	34.8	34.7
3 Liquor (1927 Cl.—100)	321.3	197.1	304.2	301.4
8 Machinery	111.6	82.6	108.1	106.8
2 Mail Order	91.8	61.8	86.8	85.6
3 Meat Packing	62.0	34.9	61.0	59.6
11 Metals, non-Ferrous	155.7	106.8	121.3	122.8
3 Paper	13.7	9.0	13.5	13.3
22 Petroleum	141.4	86.9	126.7	123.6
19 Public Utilities	58.1	23.2	49.7	50.4
4 Radio (1927 Cl.—100)	26.1	12.1	23.5	23.3
7 Railroad Equipment	57.4	32.1	53.1	52.9
18 Railroads	18.6	9.8	16.3	15.9
2 Shipbuilding	106.1	61.2	76.6	74.9
3 Soft Drinks	337.1	197.8	313.5	310.0
13 Steel & Iron	79.3	57.6	69.6	68.6
3 Sugar	47.2	32.2	42.2	42.1
2 Sulphur	196.2	159.8	167.2	169.1
3 Textiles	56.7	33.7	53.0	51.3
3 Tires & Rubber	28.1	16.5	26.7	26.2
4 Tobacco	67.7	52.2	63.7	64.0
2 Variety Stores	233.8	182.4	228.5	227.0
21 Unclassified (1942 Cl.—100)	190.0	100.0	170.0	165.4

G—New HIGH since 1937.

Trend of Commodities

Though all but three—rye, oats, and cotton—of the principal agricultural commodities are now "ceiled," the Labor Bureau's index of spot prices for seven farm products advanced another point during the past fortnight to a new war-time high. Strength in cotton reflected heavy Government purchases for lend-lease shipments. Textile output this year will remain considerably below civilian requirements, owing to shortages of labor and repair parts for machinery. Cotton consumption in December was 100,000 bales (11%) under the like month of 1942. The midwestern food belt is suffering from the worst drought in a decade, causing a critical outlook for winter wheat, rye and hay. The BAE states that the supply of feed grai per head of livestock is now less than in any year since th great drought of 1930. Lend-lease shipments of food an farm products during the first 11 months of 1943 totale 10.5 million pounds—9.3% of the domestic supply of a meats, 3.6% of all milk products and 11.9% of our eg production. Shipments will be larger this year. Accordin to the American Institute of Food Distribution, fruit an vegetable canners are planning a smaller output this yea despite a prospective increase in production of tin plate owing to Government delays in fixing prices for raw an finished products.



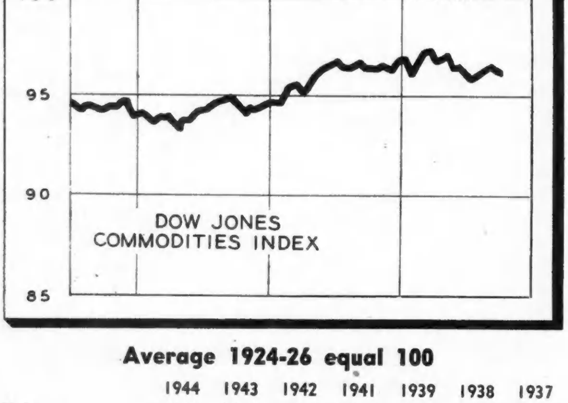


U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices—August, 1939, equals 100

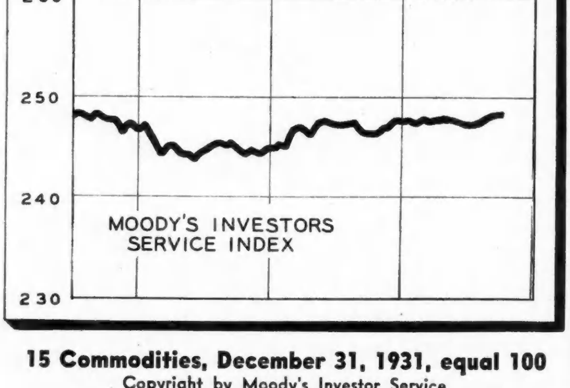
	Date Jan. 22	2 Wk. Ago	Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	179.4	179.1	178.9	177.8	176.3	173.9	156.9
11 Import Commodities	167.6	167.8	167.9	166.7	167.7	164.5	157.5
17 Domestic Commodities	187.4	186.8	186.3	185.4	182.1	180.3	156.6

	Date Jan. 22	2 Wk. Ago	Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agricultural	219.7	218.8	218.2	215.6	209.7	200.5	163.9
12 Foodstuffs	206.9	206.3	206.3	204.2	199.8	198:4	169.2
16 Raw Industrials	161.0	161.0	160.5	161.1	160.4	157.4	148.2



Average 1924-26 equal 100

	1944	1943	1942	1941	1939	1938	1937
High	97.09	96.55	88.88	84.60	64.67	54.95	82.44
Low	95.91	88.45	83.61	55.45	46.50	45.03	52.03



15 Commodities, December 31, 1931, equal 100

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	1944	1943	1942	1941	1939	1938	1937
High	247.8	249.8	239.0	219.0	172.3	152.9	228.1
Low	247.0	240.3	220.0	171.6	138.4	130.1	144.6

Impending Revival of Gold

(*Continued from page* 447)

ere and abroad. The possibility of urther devaluation of the dollar, hile by no means inevitable, is a eal one, nevertheless, considering he current inflationary trend resulting from the war's impact on our conomy. This trend is even strong-r abroad.

Gold mining costs will tend high-r than pre-war, principally due to igher wages which are not likely to ettle back to earlier levels. Materials osts are also up, in some instances mportantly so.

Taxes have increased rapidly in ecent years and the 1937-41 average most probably will be considerably lower than post-war taxes will be. This applies especially to the U. S. where tax increases have been more recent than in Canada. The tax position of individual companies therefore deserves special attention in projecting future earnings potentials. Incidentally, current deficit operations will enable domestic companies to set up tax carry-overs for the post-war period, indicating substantial tax savings for the first few years. On the other hand, fears have been expressed in some quarters of special taxation of gold mining company earnings in the event that the price of gold is further increased. To my way of thinking, this is a reasonable expectation as it is hardly likely that gold mining companies, as in the thirties, will be permitted to profit once again from currency devaluation if it does occur. All factors considered, moderately higher post-war taxes must be reckoned with for American and Canadian companies even should the gold price be left untouched.

From all this, it must be concluded that future net earnings are likely to run below the prewar average unless and until the gold price is advanced. Expectation of the latter is apparently sufficiently strong to have warranted sizable speculative commitments in gold equities in recent months. On basis of the present gold price, leading gold mining shares appear adequately valued at current quotations. Impending peace, permitting resumption of mining operations, is of course a bullish factor and recent mild relaxation of restrictions, under the relief clause, has revived interest in the past few months. While the original shut-down order still stands, WPB has been more sympathetic in handling appeals of small mines where "free" labor is available. Some 70 such properties are now again operating and the trend of the war and war production suggests that larger units may soon receive permission for partial operations. Homestake, for instance, has just filed an appeal for such permission. Canadian relief measures are aimed principally at preventing further mine shutdowns. Hence the downtrend in output, both here and in Canada, should at least be checked if not reversed, and in the case of American companies, more profitable operations may not have to wait for peace.

As a group, gold shares derive their principal appeal from the prospects of peace. Subsidiary market considerations have been the ability of individual companies to weather the protracted shutdown, and ability to resume operations. Thus the amount and proportion of liquid assets, and the condition of a company's property are important criterions in appraising gold shares. To these must now be added the aforementioned factors as primary determinants of future profit margins.

From 1937 through 1941, leading gold equities sold at from 7 to 11 times earnings, establishing a reasonable precedent. In most of 1942 they averaged lower in recognition of the poor outlook at the time but started upwards in November 1942, reflecting substantial improvement in the war news and subsequently were further bolstered by the importance of gold in the international currency stabilization talks. Current prices are generally not far below the average five-year highs and adequately discount the more immediate outlook as it appears today.

Alaska Juneau at $6\frac{1}{8}$ is currently one point below the 1943 high, Dome at $23\frac{1}{2}$ is about 2 points lower, Homestake at $43\frac{3}{4}$ is slightly above the 1943 high of $42\frac{5}{8}$ and McIntyre Porcupine at 51 is fractionally above last year's peak of $50\frac{5}{8}$. In the best position, having ample reserves and good operating prospects, appear Homestake among the domestic companies, Domes Mines and McIntyre among the Canadian companies. Lake Shore and Wright-Hargreaves are relatively low-priced, selling around 14 and $2\frac{7}{8}$ respectively, because of uncertainty regarding their ore reserves. Natomas, selling at $9\frac{3}{8}$, has attraction as a low-priced speculative purchase; operations in 1943 were probably around the break-even point and early in 1944 should net a small profit. Fundamentally, the company's position appears considerably improved and outside income has largely carried the shut down costs.

Looking Ahead With the Steel Industry

(*Continued from page* 461)

in the 1940s was 1941 when net on the common was $10.45. Yet, the average net income for Steel during the ten years 1934 through 1943 was under $5 a share annually. It is a huge company, but the industry is an overcrowded one in peace times, with hundreds of small companies also all trying to get their part of the business and the larger ones trying to keep their capacity as fully active as possible, so that U. S. Steel has not had what could be called a good earnings record over a longer period of years. There is interest to be met on the approximately $135,000,000 funded debt of the company and its subsidiaries, and 7% annual dividends paid on the 3,602,811 shares of $100 par value preferred takes a tidy sum each year. Depreciation reserves, funds for new buildings, for keeping plants in condition and for modernization, take huge sums every year; and then recently were taxes of $120,000,000 to $160,000,000 a year. Hence, to provide for all of these things and show any substantial earning power on 8,703,252 shares of no par value common stock has been a problem.

Bethlehem Steel is not so colossal. There is more funded debt—about $160,000,000—but the preferred stock of 2,984,994 shares is followed by only 2,984,994 shares of common stock, which is about one-third as much common as U. S. Steel, and therefore it has greater leverage in the years of good earnings. Nonetheless, Bethlehem has had some bad periods in the past fifteen years, with serious deficits in the early 1930s, but on the war stimulation, its net income rose to $16.74 a share in 1940 and has been above $7 a share average for the three years since. The rise in excess profits taxes has severely reduced the 1942-3 earnings. The postwar outlook for Bethlehem is much the same as that for U. S. Steel.

Republic has climbed to third place in the industry through mergers and the erection of new plants. There is the same story of a large capitalization—bonds, two preferred stock issues, and 5,669,923 shares of common stock—which makes it difficult to show large Common earnings in average years in the steel industry.

Jones & Laughlin Steel had a poor earnings record before 1940, with large deficits in some years and few with even fair earnings through the 1930s. The business was on the upgrade at the time that the merger with Otis Steel was completed in 1942, and for four years results have been good—about $8 a share annually for the 1940-3 period. This company also has heavy funded debt and large amounts of preferred stocks ahead of the 1,596,776 shares of no par common stock. The prospects when war business is finished are not too good, but an offsetting factor is the products which the company can make for the motor car trades, as this was a strong suit of Otis Steel.

Youngstown Sheet & Tube, like the others in this group, has a large bonded debt, but only 150,000 shares of preferred ahead of the 1,675,008 shares of no par common. The earnings in the early 1930s were followed by good results in 1936 and 1937, then after a small deficit in 1938, an average close to $8 a share for the five years 1939-43. The company had considerable business in the past for the motor car and oil industries and these consumers may furnish enough business to give fair earnings after the war is over.

American Rolling Mill, like the rest, has a large amount of bonds and preferred stock ahead of the 2,868,700 shares of $25 par value common. Unlike most of the rest of this group, war time earnings have not been large on a per share basis. One of the offsetting advantages for the postwar era for this company may be in its large holdings of Rustless Iron & Steel, a company which is expected to develop new and larger markets.

Crucible Steel has been "way up and way down" through the years, with some years of severe deficits and others of very large earnings. The past four have been excellent, with an average of about $12 a share a year on the common. The average person appears to have given more thought to the years such as 1938 when there was a deficit of $8.86 a share than to the good years. The stock may not be as highly speculative as many think, and may have the backing of fair earnings in the postwar period.

Wheeling Steel common has certain leverage features, as there is $33,600,000 in funded debt and 363,166 shares of preferred, with only 569,559 shares of no par common. A company which has done well over $100,000,000 gross business in several years can have sudden jumps in common share earnings on such a relatively small common capitalization. The company went from a deficit in 1938 to $6.40 a share in 1939, and jumped to $11.71 a share in 1941. The 1942 and 1943 results were smaller, owing mostly to curtailment in tin plate production. A fair earnings rate is likely after the war.

Sharon Steel is a small company which has been able to show better earnings in 1943 than in 1942. For the nine months to September 30, 1943, net on the common was $3.60 a share against $1.48 in the same period of 1942. There are small funded debt and preferred stock issues ahead of the 392,311 shares of no par common. Previous to 1940, earnings had been quite irregular. As the company had a considerable part of its business with the automobile industry before the war, there are reasonably good prospects for postwar income and the stock has merit as a low-price speculation.

In estimating some of the 1943 earnings reports, there were nine months figures available in many cases, but some difficulties were experienced as to what to calculate for the fourth quarter. This was because of the wide variance in the treatment of fourth quarter earnings by several companies in 1942. In some cases, unusually heavy depreciation charges were made in the fourth quarter of 1941, in others heavy contingent reserves were deducted. Taxes were more heavily charged in the fourth quarter of 1942 than in the preceding three quarters. The recapture of some 1942 earnings by renegotiation of government contracts in 1943, also may have made some companies more careful in the last period of 1943 in putting aside reserves to meet that contingency.

The dividend forecast in the tables is based upon the assumption that the war might last through much of 1944, in the European phase of it. A much earlier ending is possible, in some opinions. If the latter proves to be correct, it is to be expected that some of the steel companies will reduce their dividends later in the year. From the present outlook, a sharp falling off in the activity of many steel companies may result rather quickly after the war ends. Only a few of the steels—of which Inland, National and Acme are examples—have even semi-investment status. Yet a postwar bull market would no doubt see the whole group regaining some measure of its former market position under speculative leadership of such issues as "Big Steel," Youngstown, Republic and Bethlehem.

Our Changing Economic Map

(*Continued from page 445*)
tling back into the known pre-war pattern as far as regional divergencies are concerned. Whether or not this eventuates, will mainly depend on post-war population movements, apart from the all-important degree of prosperity we are likely to enjoy.

Earlier in this article, we have shown, with concrete figures, the magnitude of population changes due to the war, and indicated the likelihood of a considerable reshuffling ahead. On basis of over-all prospects and long-term trends of population growth, the Census Bureau recently has published an interesting appraisal of post-war prospects of leading metropolitan areas.

Among areas with the most rapid war-time growth and having the best prospects of its retention, the Bureau cities such leading southern centers as Atlanta, Charleston, Corpus Christi, Dallas, Galveston, Houston, Jacksonville, Mobile, Miami, Tampa, San Antonio, Columbus, Ga., and Columbia, S. C. Outside of the South in this category fall Washington, D. C., Phoenix, Ariz., and San Diego, Cal. Areas with most rapid war-time growth and having excellent prospects of its retention include Amarillo, Tex., Augusta, Ga., Baltimore, Md., Charleston, W. Va., Detroit, Indianapolis, Little Rock, Ark., Los Angeles, Memphis, Nashville, New Orleans, Norfolk, Va., Oklahoma City, Sacramento, Richmond, Va., San Francisco-Oakland, Savannah, Seattle, Tacoma, and Wilmington, Del.

Those with above pre-war wartime growth and good prospcts for its retention comprise Birmingham, Bridgeport, Cincinnati and Columbus, Ohio, St. Louis, Springfield, Ohio, and Hartford, Conn.

Areas where war-time growth was rapid but post-war prospects dependent on ability to reconvert to peacetime pursuits include Akron, Dayton, El Paso, Erie, Penn., Kansas City, Louisville, Portland, Rockford, Ill., Tulsa, Waco and Wichita.

Areas which are losing population or barely holding their own, but with excellent chances of a post-war comeback include Asheville, N. C., Austin, Tex., Binghamton, Charlotte, N. C., Chattanooga, Des Moines, Knoxville, Lansing, Mich., Minneapolis, St. Paul, Peoria, Shreveport, La.

In the same category but with only fair chances of a comeback fall such cities a Chicago, Cleveland, Flint,

Mich., Fort Wayne, Ind., Grand Rapids, Milwaukee, New York City-North Eastern New Jersey, South Bend, Toledo, Topeka, and Youngstown, Ohio.

Finally, among areas losing population or growing very little, and with post-war prospects very doubtful, are mentioned Albany-Schenectady-Troy, N. Y.; Allentown-Bethlehem-Easton, Pa.; Altoona, Pa.; Boston, Mass.; Buffalo-Niagara; Duluth, Minn.; Superior, Wisc.; Fall River-New Bedford, Mass.; Harrisburg, Pa.; Manchester, N. H.; New Haven; Omaha; Philadelphia; Pittsburgh; Providence, R. I.; Reading, Pa.; Rochester, N. Y.; St. Joseph, Mo.; Scranton-Wilkes-Barre, Pa.; Springfield, Ill.; Syracuse, N. Y.; Trenton, N. J.; Wheeling, W. Va.; Worcester, Mass., and York, Pa.

This of course represents a purely tentative projection and to many may seem a rather sweeping prediction. It is significant, however, that the South figures prominently among the areas to which best prospects are conceded, and inclusion of a number of Pacific Coast centers is at least interesting. Presence of numerous leading industrial centers in New York, New Jersey, Pennsylvania, Massachusetts and Ohio in the list of areas where prospects are held poorer merely confirms the well-known trend of present-day industrialization away from the old centers of the North and Middle Atlantic Coast and parts of the East North Central Region towards areas with more abundant and cheaper labor and power.

Changing Status of the Railroads

(*Continued from page* 457)

more efficient locomotives, larger capacity freight cars, increased speeds, longer lasting roadbeds, etc. A relatively new development, centralized traffic control, promises equally important savings in the future.

Further savings are possible through more liberal authorization of abandonments of unprofitable mileage, and possible upward rate increases to provide for more liberal depreciation and obsolescence schedules. Students of railroad finance are well aware that some 30% of all mileage has a density of less than 200,000 ton miles, a level admittedly not profitable. There is reason to believe that our authorities may become more cognizant of this problem, and they may well prove more liberal in permitting abandonments in the future, at a rate far more rapid than the niggardly abandonments permitted during the past decade.

The railroad industry has culminated a decade or more of technological improvements which compare favorably with any major U. S. industries which can be mentioned. Cash resources have risen more rapidly than in any other industries. In similar fashion greater debt reduction has been effected by the rails than is the case for either the average industrial or utility. Current trend of debt reduction should continue though at not so rapid a pace as in the immediate past. However, cash resources of carriers likely to emerge from reorganization in the next 12 to 24 months, as well as of those borderline carriers which have consistently adhered to a policy of debt retirement—such as Southern Pacific, Illinois Central, and the Katy, merely to mention three roads—spell further reduction of interest charges at a satisfactory rate.

The rail industry in the '30's found itself crimped by the long term decline in production and turnover, as well as a sharp decline in exports. There is reason to believe that this selfsame industry, tied to mass transport, essentially a volume industry, may well find itself in the late '40's and early '50's with a substantial volume of freight traffic to handle, in marked contradistinction to the era of the '30's. The traffic volume we envisage in the decade following the war, should insure the carriers gross revenues equal to, if not greater than, those obtained in 1941. Present railroad management, keenly aware of competitive forces, and utilizing technological developments mentioned in this article, can and will translate this gross into a net operating income far above levels reported during the depression '30's. In fact it would not be surprising were the carriers to duplicate their average showing between 1923 and 1926, i.e. of earnings after charges of some $550 million annually.

Because of this probable establishment of a high level of earning power, higher than was imagined even as recently as twelve months ago, the industry should have no difficulty in re-establishing its credit particularly in the light of the substantial reduction in fixed charges effected in the recent past. That there will be doubters of the thesis advanced in this brief article, this writer has little doubt. Yet he affirms his belief that the railroad industry may yet, like the widow's son, rise from the dead to confound its skeptics.

Selected Large Earners With Good Prospects

(*Continued from page* 466)

31, 1943, had minor increases over the year before. The distilling companies also completed their fiscal year in the late Summer, with American Distilling showing $8.46 for the fiscal year to September 30, 1943, against $6.84 the year before. Schenley Distilling had $6.64 a share for the year to August 31, 1943, against $4.63 the year before and for the quarter to November 30, 1943, had $2.97 a share against $1.59 for the corresponding quarter of 1942.

National Distillers report is for the calendar year, and for the nine months to September 30, 1943, the company had reported $2.91 a share against $2.36 in the same period of 1942. There are indications of near to $4 share for the full year 1943 against $3.37 in 1942.

Among larger companies in the market leader class, a few had satisfactory increases in earnings last year, among which Westinghouse Electric and Allis Chalmers are two examples.

Some of the department stores, which have a fiscal year ending January 31, 1944, are in line for good increases over the previous year, with Allied Stores a prominent example, having indications of net income of about $3.50 for the year just closed.

Of the industrial stocks tabulated, the following are of above-average investment quality: Amerada, Borg Warner, Bower Roller Bearing, Libbey-Owens-Ford, National Distillers, Pullman, Standard Oil of California, Union Oil and Westinghouse. In the writer's opinion, superior longer-term appreciation potentials are offered by Amerada, Borg Warner, Libbey-Owens-Ford and Pullman.

Among the medium-quality and more speculative issues my choice—with which doubtless other analysts might disagree in some respects—would be Allied Stores, Collins & Aikman, Ferro Enamel, Philco and Sharon Steel. The utilities and rails are speculative but not inconceivably may eventually show an appreciation greater percentage-wise than most of the above industrials. It should be emphasized that these selections do not constitute current buying recommendations. For guidance in timing security purchases for appreciation, follow the counsel in our general market analysis in the fore part of each issue.

Stocks Showing Major Increases In Asset Values

(*Continued from page* 469)

In 1942, a volume of $196 million was financed with net working funds of $82 million, by no means a proportionate increase. The company was able to do this for two reasons: (1) Turnover was greatly accelerated, and (2) concentration on war work permitted great economies in working capital, as illustrated by an actual decline in receivables and a sharp drop in selling expenses, normally important drains on working capital in the highly competitive farm machinery industry. The conclusion is that while working assets will be adequate for financing a pre-war volume of business, asset expansion is insufficient to cope with a substantially higher sales volume such as may well materialize after the war. This conclusion, however, need not obscure the fact that the company today is financially stronger than in 1940.

In the case of Budd Manufacturing Co., asset expansion between 1939 and 1942 amounted to $32 million whereof the bulk, $29 million, was in current assets. Fixed assets increased only $1.64 million but special plant facilities financed with the help of the Defense Plant Corporation figure with another $3.40 million. By the end of the war, this item either will have disappeared through amortization or else whatever remains will be turned into a current asset representing a claim upon the Government. In the latter case, it means a further strengthening of the working capital position with current assets then possibly amounting to 95% of total assets.

Budd, too, achieved its asset expansion largely with retained earnings but required some Government help in the form of RFC loans of which some $3.6 million are still outstanding. Net working capital rose from $7.31 million to $10.62 millon, in the period under discussion, but the current ratio dropped from 3.53 to 1.37 reflecting the relative deterioration in working capital positon despite the just mentioned over-all expansion. This deterioration finds perhaps better reflection if we hold the net increase in working capital of $3.31 millon against the fact that long-term debt, represented by RFC loans, is $3.60 millon. Were the latter paid off today, working capital would be actually lower than in 1939. Still the ratio of long-term debt to working capital today is more favorable than in 1939. While on the surface, 50% increments in book value and working capital per share appear to indicate a gratifying strengthening of the company's financial status, a comparative analysis of the balance sheet actually brings out the fact that there has been no such improvement. An improvement there was, but it is by no means as impressive as book value and net quick assets would indicate.

Borg-Warner, another important war producer, managed to finance its vastly expanded output without outside borrowing and with only modest resort to Government credit. The bulk of asset expansion of $73 million was derived from retained earnings; only $14 million were supplied by the Government in form of advances on war contracts while additional $9 million were represented by trade credits and accruals. Current assets doubled during 1939-42 but current liabilities increased about seven-fold, resulting in the narrowing of the current ratio from 3.7 to 1.57 to 1. The increase in working capital thus remains small, considering the huge business done, which clearly reflects the strain on working assets imposed by the company's policy of self-

financing operations to the greatest possible degree.

Property account increased only nominally, leaving the basic cost structure virtually unchanged. The bulk of augmented working funds was used to strengthen cash position and finance receivables; the latter item rose sharply due to the company's employment of a great number of sub-contractors. But inventory expansion was moderate; the total of $22 million compares with the company's net worth of about $57 million, a fairly favorable showing for a war contractor of this magnitude. Quick assets almost equal current liabilities and the over-all picture is one of marked liquidity. Working capital, now about $36 million, is some 50% above 1939, an increment uncompromised by any rise in long-term debt of which in fact there is none. Nor has there been any inflation of plant account. This reflects a real improvement

Still another story is told by the war-time financial experience of Wheeling Steel. Total assets between 1939 and 1942 rose from $124 million to $132 million, current assets from $45 million to $52 million, net working capital from $37 million to $43 million while the current ratio also rose, from 5.5 to 6.2, the latter a development rather contrary to general industrial experience. It is primarily due to the fact that current liabilities, elsewhere mounting at a higher ratio than current assets, in the case of this company remained virtually unchanged while the main increase in current assets occurred in "marketable securities" which rose about $7.5 million. Fixed assets advanced only nominally, about $1 million, partially offset by a slight decrease in "other investments." Of total asset expansion of some $8 million, some $2 were derived from bank loans, the remainder from retained earnings. In spite of the incidence of bank loans, Wheeling's financial experience, broadly speaking, appears much sounder than those of the companies previously mentioned which of course was not so much a matter of company policy but finds its explanation in the company's war production role. For Wheeling, as for most steel companies, there arose no conversion need; except for moderate expansion of facilities, production continued largely as before and wartime economies in working capital doubtless greatly minimized the need for added funds. The appreciation in book value as shown on our table thus represents a real improvement.

As I See It!

(Continued from page 437)

policy. The stumbling block we found difficult to overcome centered around the complications heavily involving British economic interests and the status of British investors, whose holdings in the Argentine run well over a billion dollars.

However, the Argentine-inspired revolt in Bolivia brought the crisis to a head. We could no longer countenance a situation that would endanger our position in this hemisphere or permit the setting up of machinery which would inevitably produce a new war—to be fought on this continent.

The decisive action taken has greatly strengthened our relations with Latin America, and is bound to lead to the hemisphere solidarity toward which our State Department has been working so long. In view of the enormous problems that confront us in South America, it is to be hoped that there will be no more speeches like that of Senator Butler, which showed the greatest lack of understanding of the Latin-American situation, as well as ignorance of what is going on down there.

Anyone familiar with the South American financing of the 'twenties, which brought us in such bad odor with the various countries there, will understand what I mean when I say that our position in South America is stronger today than at any time in our history. We now have the opportunity to knit this hemisphere together and develop lasting ties based on mutual interest and love of peace.

Spain

Our application of sanctions to Spain is going to weaken further the Nazi hold in both Europe and South America, for Spain has been the fascist link between both continents, not only politically and economically, but because of strong religious ties. It is well to remember that the Ramirez regime made Catholicism the state religion of the Argentine, tying it ever closer to Spain which has been the center of Vatican politics and the hotbed of fascist intrigue between the two hemispheres.

For this reason, the presence there during the past few months of Sir Samuel Hoare, the British counterpart of Von Papen, may have been responsible for arousing Russia's suspicions, which climaxed in the separate peace rumor in *Pravda*. While the word "separate" was highly exaggerated and harmfully tactless, we can assume that the discussions in which Sir Samuel was involved were bound up with British economic problems and foreign interests, since he has always been affiliated with the great British industrial internationalists.

As we know, a certain group in this leadership around the world have in the prewar period collaborated in cartels and other arrangements involving spheres of influence. We know too that this has been true of important corporations in our own country, and solutions in matters of this kind have been difficult to arrive at, especially if they involve corporations having enemy status.

These complications have frequently hampered the conduct of the war. It is a psychological factor which must be taken into consideration, as it deals with the very human tendency to preserve power and position against all odds. Besides, British intentions were made clear by Winston Churchill when he said that he was not intending to use his power to liquidate the British Empire. And that means British interests the world over.

As can be seen from the above, our problems are far from simple. It is not that of purely winning the war by force of arms. It calls for wit and judgment and the balancing of interests, if we are to win this war and prevent another one from developing. The times call for commonsense planning with an end of political quackery.

Revolutions have never solved the world's problems. They have only produced new ones and the process from liberation to tyranny and back again has followed in regular succession throughout the centuries. As observers in the past few decades, we have seen the failures of both fascism and communism. We know that democracy at least gives us a chance to correct the inevitable mistakes that we humans make.

Only by working together, by compromise, can we find the solution to our problems. Therefore, let us do nothing to jeopardize the democratic system which, though imperfect, is full of faults only because we are not sufficiently strong. What we need is the kind of education that will teach us to make the best use of our liberties so that we may deserve them.

In the Next Issue:

Wartime Trends in National Income

By E. A. Krauss

Commodity Prices

(*Continued from page 442*)

A further devaluation of the dollar, as did the 1934 change, would automatically and proportionately influence prices of commodities—mainly raw materials—with international markets. It would not necessarily of itself raise the general, internal price level. Only a depreciation of the dollar's value in gold so great as to destroy public confidence in the paper money as such could of itself—without the conjunction of an inflationary supply-demand situation—produce a destructively great price inflation. I do not believe that is likely. Despite all the ill-informed 1933-1934 clamor about the "59 cent dollar," consumers, rightly, retained their faith in our money. Even today under the great strains of total war, the dollar has a purchasing value in goods and services just about equal to that of the mid-'20's when we all assumed our money was quite "sound." Should we come eventually to a "50-cent dollar" or a "40-cent dollar"—in gold—in consequence of international arrangements, I have no reason to think it would excite or frighten the consuming public any more than did the 1933-1934 monetary adjustment.

Farm prices, as said earlier in this article, are more inflated than the general price level. Demand for foods, including exports, will remain at a high level for some time to come; and the price-conscious farmers have a political pull. On the other hand, output of farm machinery will increase greatly and promptly, making production easier and cheaper. Moreover, it seems probable that the duration of food shortages in war areas is being exaggerated. Given average weather, one to two seasons will bring an enormous acreage back into high productivity. Therefore we will in due course again find farm prices at least back in line with the general price level, if not below it—and with the familiar demands that the Government do something quickly to "save" the farmers from too low prices.

Answers To Inquiries

(*Continued from page 472*)

current price of 26 would be slightly less than 6%. This stock appears to have considerable appeal at current market levels with prospects of further appreciation in the future.

General Steel Castings

Being a subscriber to your magazine, will you advise me whether or not the General Steel Castings Corporation first mortgage gold 5½% bonds Series "A" due July 1, 1949, is a good investment?—H. F. R., New Rochelle, N. Y.

General Steel Castings Corporation was formed for the primary purpose of furnishing railroads and railroad equipment manufacturers with special types of steel castings. All of the common stock of this company is owned by American Steel Foundries, Baldwin Locomotive and American Locomotive Company. The company's 1st mortgage 5½ per cent Series "A" bonds due 1949 carry an investment rating of B. The original issue was $20,000,000 and on December 31, 1942, there were $11,477,000 of this issue outstanding. According to a report to the SEC, company acquired $677,000 of its 5½ per cent bonds during the two months ending November 30th, making a total of $2,000,000 bought since January 1st, 1943, and leaving $9,477,000 outstanding as of November 30th, excluding $5,323,000 held in the treasury. The bonds are secured by a first mortgage upon the principal plants and properties of the company. The company operated at a deficit in 1938 but since then earnings have been improving steadily. In 1942, the company earned its fixed charges 4.36 times as compared with 4.54 times in 1941. For the first nine months of 1943, fixed charges were earned 7.01 times as compared with 4.79 times for the same period of 1942. On December 31, 1942, the company's total assets amounted to $38,728,122 and net current assets were $8,318,330. You will therefore see that the latter item is only approximately $1,000,000 less than the total amount of bonds now outstanding. The price range this year has been: high 103; low 98; last 102. The bonds are callable at 102½ to July 1, 1947, inclusive, and thereafter at 100. While the company's bonds cannot be considered as high grade, they do appear to be a good speculation. The prospects for railroad equipment companies appear bright for 1944.

1944 Prospects for Food Securities

(*Continued from page* 455)

income will reflect the full effects of the subsidy program. Should the latter be discontinued, which is unlikely, higher flour prices would be necessary to forestall shortages, and incidentally, declining earnings. General Mills is outstanding in the milling group; its stock, of investment calibre, has moderate growth prospects. The company, interestingly, is contemplating to enter the electrical appliance field after the war. Long a prolific distributor of premium coupons to its customers, redeemable in a variety of merchandise, the company apparently thinks it profitable to manufacture its own premium merchandise, heretofore purchased elsewhere. Manufacture of a line of toasters, waffle irons and similar appliances is contemplated.

Fundamentally, most leading milling, biscuit and packaged cereal companies are conservative income issues, reflecting relatively stable earnings and sound financial structures which in the past permitted generous and stable dividends. Baking stocks, on the other hand, are more speculative as normally keen competition hampers price adjustments for cost changes while sales of better-margined cakes and pastries fluctuate with consumer incomes. The war is tending to obscure these fundamental factors and, for the duration, the outlook for the entire group is quite promising which recently has led to a somewhat broader market following, normally small.

Relaxation of restrictions on cocoa and sugar, the outgrowth of greatly improved shipping conditions, has enhanced sales prospects of confectionery manufacturers. Consumer demand is greatly stimulated by unprecedented spending power and Government orders for the armed forces are quite heavy. Ceilings on raw materials and well-controlled selling prices are making for maintenance of favorable profit margins which are not likely to change much over the coming months. Various economies in packaging and reduction of promotional expenditures are also aiding profits so that the latter in 1943, despite rationing of raw materials, generally compare favorably with 1942 results. Barring allotment changes of cocoa and sugar which may or may not occur during this year in line with changed shipping conditions, 1944 earnings will not differ greatly from last year's. Since most companies have a large part of their earnings in the excess profits tax brackets, any change, either way, will be largely reflected by changes in tax liability.

Current market valuation of confectionery stocks represent an appraisal of post-war earnings prospects rather than current potentials which finds reflection in fairly high price-earnings ratios and low yields. Beechnut Packing is a case in point. Others, like Life Savers with its inherent stability of earnings and liberal dividend policy, have semi-investment appeal.

Sugar shares in recent months have enjoyed a degree of popularity which largely rests on the world sugar supply outlook. The latter is tied up with the fact that, due to war causes, there is a known decrease of some 25% of the normal world supply with the practical certainty that the period of restoration will take much longer than after the first World War. In Europe alone, production is down some three million tons, and about two million tons were lost from the world supply when Japan seized Java and the Philippines. Not only is the combined production of these important producing areas temporarily withdrawn from the world market but will be missing at least two or three years after the war.

On basis of present estimates, earnings after slumping sharply last year may in 1944 approach within 75% of 1942 levels which presented a peak in recent years. This despite rising costs and taxes which occurred since then. Sharply lower 1943 earnings reflected not only restricted production but much smaller returns from blackstrap sales. All Cuban producers will greatly benefit from the new situation and those with alcohol distilleries particularly so, such as Central Violeta and others.

Puerto Rican companies have been handicapped by lower production; last season's grindings dropped over 13% but this decline was reduced to 9% by higher sucrose yields. Together with negligible molasses shipments and higher costs, it resulted in moderately lower earnings last year. Higher molasses sales will probably boost 1944 revenues somewhat and on the whole, the latter should be well sustained though not much improved. Lack of fertilizer may impair crop yields in which event improvement prospects are virtually nil. The longer term outlook is clouded by social reform moves designed to break up large estates. An exception from this rather drab outlook picture is South Porto Rico Sugar, which also owns large sugar estates in San Domingo where conditions are more conducive to earnings improvement.

The 1943 domestic beet sugar crop is officially estimated at 35% below last year's but large withdrawals from inventories helped sustain sales of beet sugar companies so far. Henceforth, some recession in shipments is likely until the new crop becomes available in July. While costs are higher, favorable ceilings on refined sugar should assure fairly well maintained margins. No drastic earnings decline is indicated for 1944 and the large acreage increase planned for this year should enhance prospects. The 1944 production goal is 150% of 1943 plantings; whether it can be achieved is difficult to say until subsidy and price support questions are fully clarified.

In the main, inadequate Government planning, labor shortages, higher costs, rationing and competition of other crops were responsible for the poor 1943 results in the beet sugar field, resulting in declining earnings of such leaders as Holly Sugar, American Crystal Sugar and Great Western Sugar. While the industry progressed in mechanizing operations which require much hand labor, the war limited available new machinery and the labor question remains a problem.

Domestic cane sugar refiners practically recovered to peace time levels thanks to a sharp increase in lend-lease requirements which more than offset the effects of domestic rationing. Because the industry is concentrated along the Atlantic Seaboard, it is getting most of the export business, and despite higher costs, 1943 results portray fair improvement though operations were handicapped by transportation difficulties and scarcity of labor. Chief beneficiaries are American Sugar Refining and National Sugar Refining which henceforth should handle considerably more lend-lease exports. The latter this year may run as high as 750,000 tons.

Both companies have diversified interests elsewhere, making for greater stability of income. Their earnings this year should run substantially higher, more fully reflecting larger domestic sugar allotments to commercial users, raised since November to 90% of 1941 consumption. There is a good chance that this rate will be maintained as long as raw sugar deliveries continue in good volume. That in turn depends primarily on available shipping.

Meat packers are not covered in this analysis, a special article having been devoted to this group in our January 22 issue.

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